Bank of Moscow

Group of Joint Stock Commercial Bank Bank of Moscow (Open Joint Stock Company)

Consolidated Financial Statements for the Year Ended 31 December 2007 together with Independent Auditors' Report

Moscow 2008

Contents

BDO Unicon
Auditors and Consultants

Closed joint-stock company

125, Warshavskoye shosse,
Moscow, 117545, Russia
Tel.: +7 (495) 797 5665
Fax: +7 (495) 797 5660
e-mail: reception@bdo.ru
www.bdo.ru

Independent Auditors' Report

To the Shareholders and the Board of Directors of Joint Stock Commercial Bank – Bank of Moscow (Open Joint Stock Company)

We have audited the accompanying consolidated financial statements of the Group of Joint Stock Commercial Bank –Bank of Moscow (Open Joint Stock Company), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group of Joint Stock Commercial Bank – Bank of Moscow (Open Joint Stock Company) as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Alexander Verenkov
FCCA
Partner

31 March 2008

BDO Unicon Inc.

125, Warshavskoye Shosse, Moscow, Russian Federation

Statement of Management's Responsibilities for the Preparation and Approval of Consolidated Financial Statements for the Year Ended 31 December 2007

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Joint Stock Commercial Bank –Bank of Moscow and its subsidiaries (the Group).

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at 31 December 2007, the results of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

On behalf of the Group's management the consolidated financial statements for the year ended 31 December 2007 were authorized for issue on 31 March 2008 by:

Yu. G. Maksutov
Financial Director

L. N. Davydova
Chief Accountant

Bank of Moscow OJSC

31 March 2008

(in thousands of Russian Roubles)

	Note	2007	2006
Assets			
Cash and cash equivalents	5	63 920 118	43 652 648
Mandatory cash balances with central banks		6 294 827	6 299 853
Financial assets at fair value through profit or loss	6	51 312 593	37 161 141
Due from other banks	7	40 853 080	29 268 411
Loans to customers	8	351 622 231	256 042 074
Financial assets available for sale	9	3 771 181	423 127
Investments in associates and non-consolidated subsidiaries	10	266 883	740 826
Goodwill		-	583 385
Premises and equipment, and intangible assets	11	7 800 053	6 579 363
Other assets	12	2 227 266	1 169 463
Tax assets		17 966	37 474
Total assets		**528 086 198**	**381 957 765**
Liabilities			
Due to other banks	13	69 624 721	37 857 119
Customer accounts	14	350 646 223	259 501 118
Financial liabilities at fair value through profit or loss	15	154 010	-
Debt securities issued	16	55 956 291	50 502 532
Other liabilities	17	1 614 181	1 298 680
Tax liabilities		1 495 769	828 963
Total liabilities		**479 491 195**	**349 988 412**
Equity			
Share capital	19	15 476 839	14 786 839
Share premium		8 642 176	2 346 400
Treasury shares		(11 483)	(11 483)
Fair value reserve for financial assets available for sale		5 710	549
Revaluation reserve for premises and equipment	11	314 317	358 183
Accumulated exchange differences		(113 986)	(64 005)
Retained earnings		22 852 385	14 130 359
Equity attributable to the shareholders of the parent bank		**47 165 958**	**31 546 842**
Minority interest	18	**1 429 045**	**422 511**
Total equity		**48 595 003**	**31 969 353**
Total liabilities and equity		**528 086 198**	**381 957 765**

Yu. G. Maksutov
Financial Director

L. N. Davydova
Chief Accountant

31 March 2008

The notes set out on pages 11 to 78 are an integral part of these consolidated financial statements

(in thousands of Russian Roubles)

	Note	2007	2006
Interest income	20	39 544 375	27 614 770
Interest expense	20	(20 467 081)	(13 533 691)
Net interest income		**19 077 294**	**14 081 079**
Provisions for impairment of due from other banks and loans to customers	7, 8	(2 446 959)	(1 345 906)
Net interest income after provision for impairment of due from other banks and loans to customers		**16 630 335**	**12 735 173**
Gains less losses arising from financial assets at fair value through profit or loss and available for sale		606 259	139 817
Gains less losses from dealing in foreign currency		2 893 446	1 675 088
Foreign exchange translation gains less losses		(1 952 341)	(781 031)
Fee and commission income	21	5 217 688	3 829 792
Fee and commission expense	21	(917 902)	(695 164)
Dividends received		5 394	18 294
Provision for impairment of financial assets available for sale	9	-	3 916
Provision for impairment of other assets	12	(1 001)	12 160
Net income		**22 481 878**	**16 938 045**
General and administrative expenses	22	(11 491 444)	(9 339 044)
Contributions to the Deposit Insurance Fund		(585 986)	(410 543)
Other operating income less expenses	23	972 970	417 341
Operating income		**11 377 418**	**7 605 799**
Share in net profit of associates	10	19 113	11 731
Net share in other movements in equity of non-consolidated subsidiaries		4 285	(5 262)
Net gain on acquisition and sale of subsidiaries and associates	27	1 791 798	16 332
Profit before taxation		**13 192 614**	**7 628 600**
Income tax expense	24	(3 146 384)	(1 851 076)
Net profit		**10 046 230**	**5 777 524**
Net profit attributable to the shareholders of the parent Bank		8 883 603	5 623 602
Net profit attributable to minority interest	18	1 162 627	153 922
Basic earnings per share (EPS) (RUR per share)	**25**	**69.18**	**46.92**

Yu. G. Maksutov

Financial Director

L. N. Davydova

Chief Accountant

The notes set out on pages 11 to 78 are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)

	2007	2006
Cash flows from operating activities		
Interest income	39 488 622	26 070 727
Interest expense	(19 118 644)	(12 618 527)
Gains less losses arising from financial assets at fair value through profit or loss and available for sale	524 873	578 885
Gains less losses from dealing in foreign currency and precious metals	2 835 647	1 673 941
Fee and commission income	5 217 688	3 829 792
Fee and commission expense	(917 902)	(694 816)
General and administrative expenses paid, other operating income received less expenses, and contributions to the Deposit Insurance Fund	(10 740 123)	(8 715 492)
Income tax paid	(2 504 230)	(1 219 370)
Cash flows from operating activities before changes in operating assets and liabilities	**14 785 931**	**8 905 140**
Net (increase)/decrease in operating assets		
Mandatory cash balances with the central banks	5 026	(2 126 386)
Financial assets at fair value through profit or loss	(14 420 687)	(1 069 690)
Due from other banks	(11 549 140)	(15 586 502)
Loans to customers	(98 194 677)	(94 475 960)
Other assets	(1 058 737)	(579 329)
Net increase/(decrease) in operating liabilities		
Due to other banks	31 747 447	14 115 495
Customer accounts	88 542 500	88 661 983
Debt securities issued (except for Eurobonds)	(5 067 268)	3 807 330
Other liabilities	315 501	(785 078)
Net cash flows from operating activities	**5 105 896**	**867 003**
Cash flows from investing activities		
Acquisition of subsidiaries and associates	(60 073)	(27 017)
Disposal of subsidiaries and associates	-	12 512
Purchase of premises and equipment (Note 11)	(1 776 241)	(1 031 933)
Proceeds from sale of premises and equipment	64 892	127 736
Dividends received	5 394	17 215
Net cash flows from investing activities	**(1 766 028)**	**(901 487)**
Cash flows from financing activities		
Share issue	6 985 776	2 906 400
Eurobonds issued by the Bank	10 259 915	18 415 126
Attraction of subordinated loan	-	2 627 590
Dividends paid (Note 26)	(167 405)	(161 963)
Net cash flows from financing activities	**17 078 286**	**23 787 153**

(in thousands of Russian Roubles)

	2007	2006
Effect of exchange rate changes on cash and cash equivalents	(150 684)	(17 524)
Change in cash and cash equivalents on acquisition of subsidiaries	-	212
Net change in cash and cash equivalents	**20 267 470**	**23 735 357**
Cash and cash equivalents at the beginning of the year	43 652 648	19 917 291
Cash and cash equivalents at the end of the year (Note 5)	**63 920 118**	**43 652 648**

Yu. G. Maksutov
Financial Director

L. N. Davydova
Chief Accountant

(in thousands of Russian Roubles

		Equity attributable to the shareholders of the parent bank							Minority interest	Total equity
	Note	Share capital	Share premium	Treasury shares	Fair value reserve for financial assets available for sale	Revaluation reserve for premises and equipment	Accumulated exchange differences	Retained earnings		
Balance as at 31 December 2006		**14 786 839**	**2 346 400**	**(11 483)**	**549**	**358 183**	**(64 005)**	**14 130 359**	**422 511**	**31 969 353**
Share issue										
- nominal value		690 000	-	-	-	-	-	-	-	690 000
- share premium		-	6 295 776	-	-	-	-	-	-	6 295 776
Revaluation at fair value of financial assets available for sale		-	-	-	5 161	-	-	-	-	5 161
Depreciation of revaluation reserve for premises and equipment		-	-	-	-	(4 005)	-	4 005	-	-
Revaluation write off due to disposal of premises and equipment less deferred taxation		-	-	-	-	(39 861)	-	-	-	(39 861)
Exchange differences arising from translation of investments in foreign subsidiary banks		-	-	-	-	-	(49 981)	-	7 134	(42 847)
Dividends declared for the year 2006	18, 26	-	-	-	-	-	-	(165 582)	(1 830)	(167 412)
Net profit for the year 2007		-	-	-	-	-	-	8 883 603	1 162 627	10 046 230
Change in minority interest on acquisition of subsidiaries	18	-	-	-	-	-	-	-	(161 397)	(161 397)
Balance as at 31 December 2007		**15 476 839**	**8 642 176**	**(11 483)**	**5 710**	**314 317**	**(113 986)**	**22 852 385**	**1 429 045**	**48 595 003**

Yu. G. Maksutov
Financial Director

Открытое акционерное общество коммерческий банк «Банк Москвы» * ОГРН 1027700159497 * МОСКВА * Bank of Moscow (open joint stock company) Joint stock commercial bank * Банк Москвы

L. N. Davydova
Chief Accountant

The notes set out on pages 11 to 78 are an integral part of these consolidated financial statements

(in thousands of Russian Roubles

		Equity attributable to the shareholders of the parent bank							Minority interest	Total equity
	Note	Share capital	Share premium	Treasury shares	Fair value reserve for financial assets available for sale	Revaluation reserve for premises and equipment	Accumulated exchange differences	Retained earnings		
Balance as at 31 December 2005		14 226 839	-	(11 483)	2 035	646 596	(15 475)	8 632 145	223 082	23 703 739
Share issue										
- nominal value		560 000	-	-	-	-	-	-	-	560 000
- share premium		-	2 346 400	-	-	-	-	-	-	2 346 400
Revaluation at fair value of financial assets available for sale		-	-	-	549	-	-	-	-	549
Realised gain on revaluation at fair value of financial assets available for sale charged to the consolidated statement of income		-	-	-	(2 035)	-	-	-	-	(2 035)
Depreciation of revaluation reserve for premises and equipment		-	-	-	-	(1 975)	-	1 975	-	-
Revaluation write off due to disposal of premises and equipment less deferred taxation		-	-	-	-	(286 438)	-	-	-	(286 438)
Exchange differences arising from translation of investments in foreign subsidiary banks		-	-	-	-	-	(48 530)	-	1 159	(47 371)
Dividends declared for the year 2005	18, 26	-	-	-	-	-	-	(127 363)	(34 607)	(161 970)
Net profit for the year 2006		-	-	-	-	-	-	5 623 602	153 922	5 777 524
Change in minority interest on acquisition of subsidiaries	18	-	-	-	-	-	-	-	78 955	78 955
Balance as at 31 December 2006		**14 786 839**	**2 346 400**	**(11 483)**	**549**	**358 183**	**(64 005)**	**14 130 359**	**422 511**	**31 969 353**

Yu. G. Maksutov

Financial Director

L. N. Davydova

Chief Accountant

The notes set out on pages 11 to 78 are an integral part of these consolidated financial statements

1. Principal Activities of the Group

These consolidated financial statements comprise the financial statements of Joint-Stock Commercial Bank – Bank of Moscow (open joint stock company) (hereinafter the «Bank» or the «Bank of Moscow») and its subsidiaries. The Bank and its subsidiaries are jointly referred to as the «Group» or «Group of the Bank of Moscow». The list of subsidiaries and associates included in these consolidated financial statements is disclosed in Note 3.

The Bank of Moscow is a joint stock commercial bank registered in the Russian Federation. The Bank of Moscow was set up in March 1995 through reorganisation of Moscow Settlement Bank registered in the Russian Federation in 1994.

The Bank operates under General Banking License No. 2748 issued by the Central Bank of the Russian Federation (hereinafter the Central Bank of RF or the Bank of Russia) on 14 October 2004. The Bank also holds licenses of the professional securities market participant and a license for trading in precious metals.

The principal activities of the Bank and its subsidiaries are corporate and retail banking services, brokerage transactions and investment services on the territory of the Russian Federation and abroad.

Provision of services to individuals makes up a considerable portion of the Bank's operations. The Bank is the third largest Russian bank by the volume of customer accounts attracted from individuals.

The Government of the City of Moscow directly and indirectly (through OJSC Moscow Insurance Company) possesses the Bank being its principal shareholder.

The Bank is registered at the following address: 8/15 Rozhdestvenka Str., Moscow, Russian Federation.

As at 31 December 2007 the Bank had 362 divisions on the territory of the Russian Federation and 5 subsidiary banks: in the Russian Federation (Moscow) – OJSC Mosvodokanalbank, Group's interest of 50.1%; in the Republic of Belarus (Minsk) – Bank Moscow-Minsk OJSC, Group's interest of 100.0%; in the Republic of Latvia (Riga) – JSC Latvian Businessbank (AS Latvijas Biznesa Banka), Group's interest of 99.87%; in the Republic of Estonia (Tallinn) – Estonian Credit Bank (Eesti Krediidipank), Group's interest of 89.04%, the Republic of Ukraine (Kiev) – BM Bank LLC, Group's interest of 100.0%.

The Bank's head office is located in Moscow. Over 80% of the Bank's operations are concentrated in the head office. The Bank's 118 branches and sub-branches are located in all administrative districts of Moscow and in large towns of Moscow region. The Bank is the financial agent of the Government of the City of Moscow for investment programs and is the authorised dealer for bonds issues of the City of Moscow. The Bank is an active participant of a number of Moscow financial and industrial programs. It provides services to the major part of municipal and commercial organisations, which participate in the implementation of Moscow Government programs.

As at 31 December 2007, the Bank of Moscow regional network comprised 53 branches and 191 sub-branches located on the territory of the Russian Federation (as at 31 December 2006: 51 branches and 157 sub-branches). The subsidiary bank – Bank Moscow-Minsk OJSC – has 5 branches and 15 sub-branches located on the territory of the Republic of Belarus (as at 31 December 2006: 5 branches and 9 sub-branches). The subsidiary bank – JSC Latvian Businessbank (AS Latvijas Biznesa Banka) has 1 sub-branch located on the territory of the Republic of Latvia (as at 31 December 2006: 1 sub-branch). Estonian Credit Bank (Eesti Krediidipank) has 10 branches and 13 sub-branches located on the territory of the Republic of Estonia (as at 31 December 2006: 8 branches and 6 sub-branches).

On 4 May 2007 the international rating agency Moody's Investors Service confirmed the long-term foreign currency deposit ratings of the Bank of Moscow at the level "Baa2", and short-term deposit ratings at the level "P-2", the outlook is "stable".

On 20 December 2007 the international rating agency Fitch Ratings confirmed the Bank's long-term credit rating at the level «BBB», short-term credit rating – "F3", support rating – "2", the ratings outlook is "stable".

In 2007 the average number of the Group employees was 10 017 (2006: 8 974).

(in thousands of Russian Roubles)

2. Operating Environment of the Group

General

Over the past decade the Russian Federation has undergone substantial political, economic and social changes. Though since 2002 the Russian economy has been recognised to be the market economy and a number of main reforms aimed at establishment of banking, judicial, tax and legislative systems have been implemented the business and legislative framework do not possess the same level of stability as in the countries with more developed economy.

In 2004 the Bank joined the Mandatory Deposit Insurance System. The activities of the Mandatory Deposit Insurance System are provided for by federal laws and regulations. It is managed by the state corporation Deposit Insurance Agency. The limit of coverage of the Bank's liabilities to private customers is up to RUR 400 thousand per each depositor in the event of bankruptcy or withdrawal of the license for banking operations by the Central Bank of Russia.

Currently, the economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include:

- relatively high inflation rates during a number of years;
- low level of liquidity on capital markets.

Inflation

Russia continues to experience relatively high levels of inflation. The inflation indices for the last five years are given in the table below:

Year ended	Inflation for the period
31 December 2007	11.9%
31 December 2006	9.0%
31 December 2005	10.9%
31 December 2004	11.7%
31 December 2003	12.0%

Currency transactions and currency control

Foreign currencies, in particular the US dollar and EUR, play a significant role in measuring economic parameters of many business transactions in Russia.

The table below shows the exchange rates of USD and EUR relative to RUR:

Year ended	USD	EUR
31 December 2007	24.5462	35.9332
31 December 2006	26.3311	34.6965
31 December 2005	28.7825	34.1850
31 December 2004	27.7487	37.8104
31 December 2003	29.4545	36.8240

Financial market transactions

Economic conditions in the Russian Federation continue to limit the volume of activity in the financial markets. Market quotations may not reflect the values of financial instruments, which would be determined in an active market on transactions on an arm's-length basis between knowledgeable and willing counterparties. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary.

Russia's investment attractiveness and reduced macroeconomic risks and inflationary expectations were confirmed by the investment ratings awarded to the Russian Federation by the following world rating agencies: Moody's (26 June 2007: award of "Baa2" rating with stable outlook), Fitch Ratings (16 August 2007: award of «BBB+» rating with stable outlook), Standard & Poor's (21 August 2007: award of "BBB+" rating with stable outlook). In the year 2006 amendments in the legislation of Russian Federation were introduced giving equal rights to residents and non-residents as regards acquisition of Russian banks' shares. Permission of the Central Bank of Russia for the acquisition of shares is required only if investments are over 20% of the capital of credit organizations. If the amount of investments is over 1% of the capital of a credit organization the Central Bank of Russia should be notified of the transaction made.

The accompanying consolidated financial statements reflect the Group management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future economic development of the Russian Federation is largely dependent upon the effectiveness of measures undertaken by the Government and other factors including regulatory and political developments, which are beyond the Group's control. The Group's management cannot predict the impact of the above factors on the financial position of the Bank and the Group. The accompanying consolidated financial statements do not include the adjustments associated with this risk.

3. Basis of Presentation

General principles

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) including all previously adopted standards and interpretations. The Group maintains its accounting records in accordance with the applicable legislation of the Russian Federation. These consolidated financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

These consolidated financial statements are presented in Russian Roubles which is the Group's functional and presentation currency.

The preparation of the consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the consolidated financial statements preparation, and the reported amounts of revenues and expenses during the reporting period. Issues, that require best estimate and are most significant for the consolidated financial statements, are disclosed in Notes 3 and 4.

Subsidiaries

Subsidiary undertakings, i.e. those entities in which the Group owns over one half of the voting shares or is otherwise able to exercise control over the operations, including special purpose entities (SPE) have been consolidated. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of subsidiaries

The purchase method of accounting is used to account for acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the date of acquisition, if the business combination of the companies is made by one transaction; and the date of each share purchase if the business combination of the companies occurs in stages by successive share purchases. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at the fair values at the date of acquisition, irrespective of the extent of any minority interest.

The excess of the cost of the acquisition over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income.

(in thousands of Russian Roubles)

Minority interest

Minority interest is the share of the subsidiary that is not owned by the Group. Minority interest at the reporting date is minority's portion of the net fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the date of the acquisition and post-acquisition changes in the equity of the subsidiary. Minority interest is recorded within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary and are allocated to the Group unless there is a binding obligation of the minority to fund the losses.

Below are the Group's subsidiaries as at 31 December 2007:

Name	Location	Business activity	Percentage of ownership	Year of acquisition
JSC Bank Moscow-Minsk	Belarus	Banking services	100.00	2000
LLC BM Bank	Ukraine	Banking services	100.00	2005
CJSC Imagine	Russia	Financial services	100.00	1996
CJSC Altruist	Russia	Financial services	100.00	1996
CJSC Press Magnate	Russia	Publishing	100.00	1996
CJSC DOSSOM	Russia	Catering	100.00	2001
CJSC Vechernyaya Moskva	Russia	Publishing	100.00	1997
CJSC Bank of Moscow management company	Russia	Financial services	100.00	2002
CJSC Stroiportinvest	Russia	Financial services	100.00	2006
AS Latvijas Biznesa Banka	Latvia	Banking services	99.87	2002
LLC Selkhozstroi	Russia	Machine-building and equipment	99.00	2006
LLC PO Montazh	Russia	Machine-building and equipment	99.00	2006
AS Eesti Krediidipank	Estonia	Banking services	89.04	2005
AS Martinoza	Estonia	Real estate management	89.04	2005
AS Krediidipanga Liising	Estonia	Leasing	89.04	2005
CJSC Concern Vechernyaya Moskva	Russia	Publishing	57.00	1997
CJSC Financial Assistant	Russia	Financial services	50.67	2006
OJSC Mosvodokanalbank	Russia	Banking services	50.10	1997
OJSC International Asset Management Company	Russia	Financial services	50.00	2003

Below are the Group's subsidiaries as at 31 December 2006:

Name	Location	Business activity	Percentage of ownership	Year of acquisition
JSC Bank Moscow-Minsk	Belarus	Banking services	100.00	2000
LLC BM Bank	Ukraine	Banking services	100.00	2005
CJSC Imagine	Russia	Financial services	100.00	1996
CJSC Altruist	Russia	Financial services	100.00	1996
CJSC Press Magnate	Russia	Publishing	100.00	1996
CJSC DOSSOM	Russia	Catering	100.00	2001
CJSC Vechernyaya Moskva	Russia	Publishing	100.00	1997
CJSC Bank of Moscow management company	Russia	Financial services	100.00	2002
CJSC Stroiportinvest	Russia	Financial services	100.00	2006
AS Latvijas Biznesa Banka	Latvia	Banking services	99.87	2002
LLC Selkhozstroi	Russia	Machine-building and equipment	99.00	2006
LLC PO Montazh	Russia	Machine-building and equipment	99.00	2006
AS Eesti Krediidipank	Estonia	Banking services	65.67	2005
AS Martinoza	Estonia	Real estate management	65.67	2005

(in thousands of Russian Roubles)

Name	Location	Business activity	Percentage of ownership	Year of acquisition
AS Krediidipanga Liising	Estonia	Leasing	65.67	2005
CJSC Concern Vechernyaya Moskva	Russia	Publishing	57.00	1997
CJSC Financial Assistant	Russia	Financial services	50.67	2006
OJSC Mosvodokanalbank	Russia	Banking services	50.10	1997
OJSC International Asset Management Company	Russia	Financial services	50.00	2003

Kuznetski Capital S.A. founded for special purposes (Eurobonds issue) and registered in Luxemburg was also included in these consolidated financial statements.

Where the companies do not have a significant influence on the consolidated financial statements of the Group, they are not consolidated. These companies are reflected within investments in associates and non-consolidated subsidiaries in the consolidated balance sheet.

Following is a list of the companies, which were not included into consolidated financial statements for 2007:

Name	Location	Business activity	Percentage of ownership	Year of acquisition
BM Holding LTD	Switzerland	Financial services	100.00	1998
BoM Finance Ltd.	British Virgin Islands	Financial services	100.00	2007
BoM Asset Management Ltd.	Cyprus	Financial services	100.00	2007
Crossplanet Ltd.	Cyprus	Financial services	100.00	2007
Monolit CJSC	Russia	Wholesale	99.00	2007
Private security company Yaroslavna, LLC	Russia	Security	75.30	1999
CJSC Stolichnaya Neftyanaya Kompania	Russia	Production	75.00	2005
Editorial office of MK-Boulevard magazine, LLC	Russia	Publishing	50.00	2002

Following is a list of the companies, which were not included into consolidated financial statements for 2006:

Name	Location	Business activity	Percentage of ownership	Year of acquisition
BM Holding LTD	Switzerland	Financial services	100.00	1998
Private security company Yaroslavna, LLC	Russia	Security	100.00	1999
CJSC Stolichnaya Neftyanaya Kompania	Russia	Production	75.00	2005
Editorial office of MK-Boulevard magazine, LLC	Russia	Publishing	50.00	2002

(in thousands of Russian Roubles)

Associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control. Investments in associates are accounted for under the equity method and are initially recognised at cost. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated statement of income, and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments on behalf of the associate.

Below is the list of the Group's associates as at 31 December 2007:

Name	Location	Business activity	Percentage of ownership	Year of acquisition
City Center for Data Processing (EIRTS), LLC	Russia	Maintenance of software and hardware	49.50	2005
VM-Service, LLC	Russia	Logistics	48.50	2002
Äigrumäe Kinnisvara AS	Estonia	Financial services	44.43	2007
JSCB Russky Zemelny Bank	Russia	Banking services	31.00	1999
CJSC Automated Banking Technologies	Russia	Information technologies	20.02	2006
JSCB Russian National Commercial Bank	Russia	Banking services	20.00	1999

Below is the list of the Group's associates as at 31 December 2006:

Name	Location	Business activity	Percentage of ownership	Year of acquisition
City Center for Data Processing (EIRTS), LLC	Russia	Maintenance of software and hardware	49.50	2005
VM-Service, LLC	Russia	Logistics	48.50	2002
JSCB Russky Zemelny Bank	Russia	Banking services	31.00	1999
OJSC Moscow Insurance Company	Russia	Insurance	24.83	2006
CJSC Automated Banking Technologies	Russia	Information technologies	20.02	2006
JSCB Russian National Commercial Bank	Russia	Banking services	20.00	1999

Effect of changes in presentation format

The following reclassifications have been made in the consolidated balance sheet as at 31 December 2006 to conform to the financial reporting format for the year ended 31 December 2007:

Amount	Before reclassification	After reclassification
158 155	Other assets	Due to other banks
142 875	Other assets	Debt securities issued

Standards applied

On the whole, the accounting policies adopted are consistent with those of the previous financial year. Certain new IFRSs became effective for the Group from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations:

- IFRS 7 "Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures" (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments, including disclosures of quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions", and some of the requirements in IAS 32 "Financial Instruments: Disclosure and Presentation". The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The amendment to IAS 1 will increase the volume of disclosures of the company's capital and capital management methods;

- IFRIC 7 "Applying the Restatement Approach under IAS 29" (effective for annual periods beginning on or after 1 March 2006);

- IFRIC 8 "Scope of IFRS 2" (effective for annual periods beginning on or after 1 May 2006);

- IFRIC 9 "Reassessment of Embedded Derivatives" (effective for annual periods beginning on or after 1 June 2006);

- IFRIC 10 "Interim Financial Reporting and Impairment" (effective for annual periods beginning on or after 1 November 2006).

IFRS and IFRIC interpretations not yet effective

The Group has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

- IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009);

- IAS 23 "Borrowing Costs" (amended in March 2007; applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009);

- IFRIC 11 "IFRS 2: Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007, i.e. from 1 January 2008);

- IFRIC 12 "Service Concession Arrangements" (effective for annual periods beginning on 1 January 2009);

- IFRIC 13 "Customer Loyalty Programs" (effective for annual periods beginning on 1 July 2008 or after this date);

- IFRIC 14 IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on 1 January 2008 or after this date).

4. Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents are assets, which can be converted into cash within a day and consist of cash on hand and correspondent and current account balances of the Group. All short-term interbank placements, excluding overnight placements, are included in due from other banks. Amounts, which relate to funds of restricted nature, are excluded from cash and cash equivalents.

Gold and other precious metals are recorded at current CBR prices approximating their fair value, quoted at a discount to London Metal Exchange rates. Changes in the CBR prices are recorded as exchange differences within other operating income less expenses in the consolidated statement of income.

Cash and cash equivalents do not include mandatory cash balances held with central banks.

Mandatory cash balances with the central banks

Mandatory cash balances held with central banks represent mandatory reserve deposits with the Central Bank of the Russian Federation and the central banks of other countries where the Group's members are residents. Mandatory cash balances held in central banks are not available to finance the Group's day-to-day operations and are excluded from cash and cash equivalents for the purposes of consolidated cash flow statement.

Financial assets

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables (this category includes due from other banks and loans to customers);
- financial assets available for sale.

The Group determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics. The Group shall not reclassify a financial instrument into or out of the fair value through profit or loss category while it is held or issued.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

In the course of application of the Group's accounting policy with respect to definition of financial assets recognized in the financial statements, the management used judgments and estimates the most significant of which are presented below.

Initial recognition of financial instruments

The Group recognizes financial assets and liabilities on its consolidated balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of the consideration given. Transaction costs that are directly attributable to the acquisition or issue of a financial asset or liability that is not classified as at fair value through profit or loss are added to the amount initially recognised.

Fair value measurement

If quoted market prices are not available, the fair value of financial assets and liabilities recorded in the consolidated balance sheet is estimated using various valuation techniques, including mathematical models. Where mathematical models are used, inputs are based on observable market data, where possible. Otherwise, the fair value should be determined using the management's best estimate based on liquidity considerations and data used for models, such as correlation and volatility of long-term financial derivative instruments.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset, or a part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; and

- the Group either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. If the transferee has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer, the entity has retained control.

Where the Group has transferred its rights to receive cash flows from an asset, and has neither transferred, nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement, that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration, that the Group could be required to repay.

Financial assets at fair value through profit or loss

Financial assets recorded at fair value through profit or loss include trading securities and other financial instruments at fair value through profit or loss.

Trading securities represent securities acquired principally for the purpose of generating a profit from short-term fluctuations in price or trader's margin, or securities included in a portfolio where a pattern of short-term trading exists. The Group classifies securities as trading securities when it intends to sell them within a short period of time after purchase. Trading securities are not reclassified out of this category even when the Group's intentions subsequently change.

Trading securities are recorded at fair value. Interest earned on trading securities is reflected in the statement of income using the effective interest method as interest income. Dividend income is recorded within dividends received when the Group's right to receive dividends is established and dividends are likely to be received. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses arising from financial assets at fair value through profit or loss in the period in which they arise.

All purchases and sales of trading securities that require delivery within the time frame established by legislation or market convention («regular way» purchases and sales) are recognised at trade date, which is the date when the Group commits to purchase or sell the asset. Otherwise, such transactions are treated as financial derivatives until settlement.

Loans to customers

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans to customers are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried at amortised cost using the effective interest rate method less provision for loan impairment.

Loans to customers are recorded when cash is advanced to borrowers.

Due from other banks

The Group adopts accounting policies applicable to loans to customers and provision for loan impairment in respect of the Group's placements with other banks.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are classified as investment securities which management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group's management determines the appropriate classification of financial assets at the time of purchase.

Financial assets available for sale are initially recognized at cost, which is the fair value of the consideration given. Transaction costs that are directly attributable to the acquisition of a financial asset are added to the amount initially recognised. Financial assets available for sale are subsequently remeasured to fair value based on quoted bid prices. Certain financial assets available for sale for which there is no available independent quotation have been fair valued by the Group's management on the basis of results of recent sales of similar financial assets to unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies.

Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recognised in the consolidated statement of changes in equity. When financial assets available for sale are disposed of, the related accumulated unreleased gains and losses are included in the consolidated statement of income as gains less losses arising from financial assets at fair value through profit or loss and available for sale. Impairment of previously remeasured assets is reported on equity accounts within the revaluation reserve for financial assets available for sale which was set up earlier.

Interest earned on debt securities available for sale is determined using the effective interest method and reflected in the consolidated statement of income as interest income. Dividends received on equity investments available for sale are recorded within dividends received when the Group's right to receive dividends is established and dividends are likely to be received.

Promissory notes purchased

Promissory notes purchased are included in financial assets at fair value through profit or loss, financial assets available for sale, due from other banks or loans to customers, depending on their economic substance and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Impairment of financial assets

The Group assesses on each reporting date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. Impairment losses are recognized in the consolidated statement of income as they are incurred as a as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

(1) Impairment of Due from other banks and Loans to customers

For amounts Due from other banks and Loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant.

Objective evidence that due from other banks and loans to customers are impaired includes observable data that comes to the attention of the Group about one or more of the following events:

- default in any payments due;
- significant financial difficulty of the borrower supported by financial information at the Group's disposal;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- worsening national or local economic environment affecting the borrower;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The main criterion used for determining objective evidence of loss from impairment of due from other banks and customer accounts representing collectively measured financial assets is availability of observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such information may include adverse changes in the payment status of borrowers in the group (for example, an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount), national or local economic conditions that correlate with defaults on the assets in the group (for example, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of the provision account and the amount of the loss is recognized in the consolidated statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group or on the basis historical information on collections of past due debts. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in the future cash flows reflect, and are discretionally consistent with, changes in related observable data from year to year (such as, changes in unemployment rate, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between estimated losses and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related allowance for impairment after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. The carrying value of impaired financial assets is not reduced directly.

In accordance with the Russian legislation, in case of a write-off of the uncollectible loan and relating interest, the Group shall take necessary and adequate steps, envisaged by law, custom of business turnover or agreement, to collect this outstanding loan. The write-off of uncollectible loan and relating interest is justified if there are documents to prove that the borrower failed to fulfill obligations to its creditors within the period not less than one year till the date when the decision was taken to write off the loan.

(2) Impairment of financial assets available for sale

The Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments available for sale is impaired.

In case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. This determination of what is significant or prolonged requires judgment. According to the Group, a 20% decrease in the fair value of the financial asset below its cost is a significant decline and decrease in the financial asset's value for over 6 months is a prolonged decline In making this judgment, the Group evaluates among other factors, the volatility in share price. Cumulative loss is measured as a difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income transfer from equity to the statement of income.

Impairment losses on equity investments are not reversed through the statement of income: increases in the fair value after impairment are recognized directly in equity. If in subsequent periods the fair value of a debt instrument classified as available for sale increases, and such increase can be objectively rated to the event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the profit and loss accounts of the current period.

In case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose for measuring the impairment loss. The interest income is recorded within interest income in the consolidated statement of income.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss, or financial liabilities carried at amortised cost.

Initially, a financial liability is measured by the Group at its fair value, and in the case of financial liability not at fair value through or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

Financial liabilities of acquired subsidiaries are initially recorded in the consolidated balance sheet at fair value at the date of acquisition.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated statement of income.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss if they are incurred for the purpose of repurchasing or closing them in the near term. They normally contain trade financial liabilities or "short" positions in securities or obligations to return borrowed securities sold to third parties.

Derivatives with negative fair value are also classified as financial liabilities at fair value through profit or loss unless they are designate as hedges. Obligations to return borrowed securities sold to third parties are recorded at fair value through profit or loss. Gains or losses on financial liabilities at fair value through profit or loss are recognised in the consolidated statement of income.

Financial liabilities measured at amortised cost

Financial liabilities carried at amortised cost include due to other banks, customer accounts, debt securities issued. Any related expense is recognized as interest expense using the effective interest rate method.

Due to other banks. Due to other banks are recorded when money or other assets are advanced to the Group by other banks.

Customer accounts. Customer accounts include non-derivative liabilities to individuals, state or corporate customers.

Debt securities issued. Debt securities issued include promissory notes, bonds and certificates of deposit issued by the Group. If the Group purchases its own debt securities issued, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised as gains arising from early retirement of debt.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards and swaps. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses from transactions in the above instruments are reported in the consolidated statement of income as gains less losses from transactions in financial assets at fair value through profit or loss. Changes in the fair value of derivative instruments are included in gain/loss. The Group does not use derivative financial instruments for hedging purposes.

Repurchase and reverse repurchase agreements and lending of securities

Sale and repurchase agreements ("repo" agreements) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognized, the securities are not reclassified. The corresponding liability is presented within amounts due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo" agreements) are recorded as due from other banks or loans to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest rate method.

Securities lent by the Group to counterparties continue to be recognised in the Group's consolidated financial statements as securities. Securities borrowed are not recorded in the Group's consolidated financial statements except when they are sold to third parties. In such cases, the financial result from sale and purchase of such securities is recognised in the consolidated statement of income within gains less losses arising from financial assets at fair value through profit or loss. The obligation to return the securities is recorded as financial liabilities at fair value through profit or loss.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Premises and equipment

Premises and equipment are stated at cost restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 (applied to premises and equipment purchased before this date) or at revalued amount, as described below, less accumulated depreciation and impairment provision.

At each reporting date the Group assesses whether there is any indication of impairment of premises and equipment. If such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. Where the carrying amount of premises and equipment is greater than their estimated recoverable amount, it is written down to their recoverable amount and the difference is charged as impairment loss to the consolidated statement of income.

The Group's premises are revalued. The frequency of revaluations depends on changes in the fair value of the assets subjected to revaluation. After the initial recognition at cost, the buildings shall be carried at a revalued amount being the fair value at the date of revaluation less accumulated impairment loss.

The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset. In the latter case, the amount of realised gain arising from revaluation is the difference between the depreciation calculated based on the revalued carrying amount of the assets and the depreciation based on the assets original cost.

Buildings and premises were revalued at current market prices as at 31 December 2002. The valuation was performed by independent professional appraiser. Market value was used as a basis of appraisal.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and recorded within general and administrative expenses of the consolidated statement of income.

Repairs and maintenance are charged to the consolidated statement of income when the expense is incurred.

Construction in progress is carried at cost less impairment losses. Upon completion, assets are transferred to premises and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

Depreciation

Depreciation of premises and equipment commences from the date the assets are ready for use. Depreciation is charged on a straight line basis over the estimated useful lives of the assets using the following rates:

- Premises 1% – 5% per annum; and
- Computers and office equipment and other equipment 10% – 25% per annum.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Goodwill

Goodwill acquired in a business combination is initially recognised at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill arising on acquisition of subsidiaries is recorded in the consolidated balance sheet. Goodwill arising on acquisition of associates is recorded as investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested annually for impairment, as well as when there are indications of impairment. If such indications exist, the Group performs an impairment analysis to evaluate recoverability of the carrying amount of goodwill. Goodwill is written off when the carrying value of goodwill exceeds its recoverable amount.

The excess of the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities acquired over the cost of acquisition is recognised in the consolidated statement of income as income.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible asset is recognized if:

- the asset is expected to generate future economic benefits for the Group:

- the cost of the asset can be measured reliably;
- the asset is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract or liability or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangible assets include computer software, licenses and other intangible assets acquired in a business combination.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets have finite or infinite useful lives. Intangible assets with finite useful lives are amortised over the useful economic life ranging from 3 to 5 years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software controlled by the Group and will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenses that enhance or extend the performance of the software beyond its original specifications are recognised as capital expenditures and added to the original cost of the software. Costs of software development recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 3 years.

Finance lease – the Group as lessee

Leases where all the risks and rewards of ownership of the asset are substantially transferred from lessor to leasee are classified as finance leases.

The Group recognises finance leases as assets and liabilities in the consolidated balance sheet at the date of commencement of the lease term at amounts equal to the fair value of the leased property. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee under the finance lease contract, are included as part of the amount recognised as an asset under the lease.

Operating lease - the Group as lessee

Leases of property under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses. Where the operating lease is terminated prior to its expiration date, any penalty payable to the lessor is recognised as expense in the period the operating lease was terminated.

Operating lease – the Group as lessor

The Group presents assets subject to operating leases in the consolidated balance sheet according to the nature of the asset. Lease income from operating leases is recognised as other operating income in the consolidated statement of income on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Share capital

Contributions to share capital made before 1 January 2003 are recorded at cost adjusted for inflation and contributions to share capital made after 1 January 2003 are recorded at cost.

Share premium

Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses arising from sale of own shares are recognized as share premium.

Treasury shares

Where the Group purchase the Group's share capital, the consideration paid including any attributable incremental external costs is deducted from equity as treasury shares until they are cancelled or disposed of. Where such shares are subsequently disposed of, any consideration received is included in the equity. Treasury shares are recognized at acquisition cost.

Dividends

Dividends are recognised as a liability and deducted from shareholders' equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the consolidated financial statements were authorized for issue.

Payment of dividends and other distribution of earnings are made on the basis of the current year net profits as reported in the financial statements prepared determined in accordance with legislation of the Russian Federation.

The amount of dividends that can be paid out by the Group is limited by retained earnings determined in accordance with legislation of the Russian Federation.

Contingent assets and liabilities

Contingent assets are not recognised in the consolidated balance sheet but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the consolidated balance sheet but are disclosed unless the possibility of any outflow in settlement is remote.

Credit related commitments

This category includes guarantees, letters of credit, and undrawn irrevocable credit lines, assumed by the Group in the normal course of its business. Guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans.

Documentary letters of credit, which are written undertakings by the Group to pay on behalf of the client the agreed amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Commitments to provide a loan are initially recognised at their fair value. Subsequently, at each balance sheet date, the commitments are reviewed and revised to obtain the current best estimate. The current best estimate of expenditure required to settle the existing commitment will be the amount that the Bank would either pay to settle the commitment at the balance sheet data or transfer to a third party at this date.

Provisions

Provisions are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Taxation

Income tax expense is recorded in the consolidated financial statements in accordance with the applicable legislation of the Russian Federation and other countries where the Group's subsidiaries are operating. Current tax is calculated on the basis of the estimated taxable profit for the year, using the tax rates enacted or substantively enacted at the balance sheet date. The income tax charge comprises current tax and deferred tax and is recorded in the consolidated statement of income except if it is recorded directly in equity because it relates to transactions that are also recorded, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current or prior periods. Taxable profits and losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns.

Deferred income tax is provided using the balance sheet liability method for tax loss carryforwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for consolidated financial statement purposes.

Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred income tax is recognised on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carryforwards will be utilised. Deferred tax assets and liabilities are offset only within each individual company of the Group. Deferred tax assets for deductible temporary differences and tax loss carryforwards are recorded to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised. Management's judgment is required to determine the amount of deferred tax assets that may be recognized in financial statements based on probable periods and amounts of future taxable profits and future tax planning strategies.

Russia and other countries where the Group's subsidiary banks and companies are operating also have various other operating taxes, which are assessed on the Group's activities. These taxes are recorded within general and administrative expenses in the consolidated statement of income.

Income and expense recognition

Interest income and expense are recorded in the statement of income for all debt instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all commissions and fees paid or received by the parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income includes coupons earned on fixed-income financial assets and accrued discount and premium on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Commissions and fees arising from negotiating a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the transaction in the consolidated statement of income. Investment portfolio and other management and advisory service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied to services related to property management, financial planning and custody services that are continuously provided over an extended period of time.

Employee benefits and social insurance contributions

The Group pays unified social tax (UST) on the territory of the Russian Federation. UST contributions are recorded on an accrual basis. UST comprises contributions to the state pension, social insurance, and obligatory medical insurance funds in respect of the Group's employees. These expenses are recognised as incurred and are included in staff costs. The Group subsidiaries, which operate on the territory of other countries, make the respective contributions in accordance with the local legislation. The Group does not have its own pension plan. Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave and bonuses are accrued in the year in which the associated services are rendered by the employees of the Group.

Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currency at the Central Bank of Russian Federation exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the official exchange rate ruling at the balance sheet date. Foreign exchange gains and losses resulting from translation of the transactions in foreign currencies are included within gains less losses from dealing in foreign currency in the consolidated statement of income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated at the Central Bank of Russian Federation exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the foreign exchange rate ruling at the dates the fair values were determined.

(in thousands of Russian Roubles)

At the date of consolidated financial statements, for companies whose functional currency is other than the Group's presentation currency, the assets and liabilities are translated to Russian Roubles at the exchange rate at the balance sheet date, whereas their income statement items are translated at an average rate of exchange for the year. Gains and losses on translation are charged to equity. When a subsidiary or associate whose functional currency is other than the Group's presentation currency is sold, the total amount shown within the equity and related to this company is recognized in the consolidated statement of income.

Fiduciary activities

Assets held by the Group in its own name, but for the account of third parties under depository, agency, trust management and other similar agreements are not reported in the Group's consolidated balance sheet. Commissions received from such operations are shown within fee and commission income in the consolidated statement of income.

Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing either products or services (business segment), or in providing products and services within particular economic environment (geographical segment). A segment shall be reported separately in the consolidated financial statements if a majority of its revenue is earned from sales to external customers, and its revenue, its financial result or its assets are ten percent or more of all the segments.

The Group's major activity is banking business. The impact of the Group's other companies (non-banks) on the structure of the Group's assets, liabilities and profits is insignificant.

The Group's banking business can be divided into three core segments: treasury, corporate and retail business. Each segment is engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

Over 95% of the Group's banking business is concentrated in the Russian Federation, where the Bank of Moscow, the Group's parent company, is situated. The remaining business is conducted in Latvia, Estonia, Belarus and Ukraine.

5. Cash and Cash Equivalents

	2007	**2006**
Cash on hand	17 412 571	14 102 971
Precious metals	143 113	102 175
Cash balances with the central banks (other than mandatory reserve deposits)	38 204 695	23 769 489
Correspondent accounts with other banks:		
- the Russian Federation;	1 676 438	1 619 411
- other countries	6 483 301	4 058 602
Total cash and cash equivalents	**63 920 118**	**43 652 648**

Geographical analysis and analysis of cash and cash equivalents by currency structure are disclosed in Note 30.

(in thousands of Russian Roubles)

6. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss reflected in the consolidated balance sheet include trading securities and derivative financial instruments, as at the balance sheet date the Group does not have other types of financial instruments classified into this category.

	2007	2006
Rouble-denominated securities		
Corporate bonds	25 334 898	13 189 150
Equity securities	4 786 411	4 533 361
Russian Federation bonds (OFZ)	4 489 052	11 258 120
Bonds of RF subjects and local authorities	3 677 534	1 966 544
Corporate promissory notes	1 979 574	505 383
Bonds of the Central Bank of Russia	-	10
	40 267 469	**31 452 568**
US dollar denominated securities		
Eurobonds of the Russian Federation	5 626 009	1 024 243
Corporate eurobonds	1 990 669	784 966
Federal currency bonds (OVGVZ)	1 649 830	2 275 699
Equity securities	289 163	247 287
Bonds of foreign governments	42 636	-
Corporate promissory notes	51	-
	9 598 358	**4 332 195**
Other currency denominated securities		
Bonds of foreign governments	1 291 938	1 209 404
Equity securities	36 486	28 063
Corporate bonds	8 250	126 345
Corporate promissory notes	256	-
	1 336 930	**1 363 812**
Derivative financial instruments in Russian Roubles	106	-
Derivative financial instruments in US dollars	109 730	12 566
	109 836	**12 566**
Total financial assets at fair value through profit or loss	**51 312 593**	**37 161 141**

Corporate bonds are represented by Rouble denominated interest-bearing securities issued by large Russian companies and quoted on the Moscow Interbank Currency Exchange (MICEX), and bonds of large Ukrainian entities and Latvian credit institutions. As at 31 December 2007, these bonds in the Group's portfolio have maturities from 8 April 2008 to 1 October 2015, coupon rates ranging from 6.67% to 14.0% per annum in the year 2007 and yield to maturity ranging from 2.06% to 13.59% per annum, depending on the issue.

As at 31 December 2007 corporate bonds include mortgage-backed bonds of CB Moscow Mortgage Agency (JSC) with a fair value of RUR 4 105 819 thousand, maturity date from 9 August 2008 to 1 October 2015, coupon rates ranging from 8.6% to 10% per annum and yield to maturity ranging from 2.06% to 9.38% per annum. Out of which, the bonds secured by state guarantees of the City of Moscow amount to RUR 1 078 037 thousand and have a maturity date of 20 September 2012, coupon rate of 10% per annum and yield to maturity of 8.4% per annum.

As at 31 December 2006 financial assets at fair value through profit or loss comprise securities provided as collateral under sale and repurchase agreements (REPO) whose value amounted to RUR 318 456 thousand, the related liabilities are recorded within customer accounts (Note 14).

Equity securities are represented by shares of large Russian companies quoted on the MICEX and Russian Trade System (RTS), and depository receipts for shares of large Russian entities quoted on the London and New York Stock Exchanges.

OFZ are Rouble-denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 31 December 2007, OFZ in the Group's portfolio have maturity dates from 11 March 2009 to 24 November 2021, coupon rates ranging from 5.80% to 9.0% per annum in the year 2007 and yield to maturity from 5.86% to 8.20% per annum, depending on the issue.

(in thousands of Russian Roubles)

Bonds of RF subjects and local authorities represent Rouble-denominated interest-bearing securities quoted on the MICEX. As at 31 December 2007, these bonds in the Group's portfolio have maturities from 27 May 2008 to 24 June 2015, coupon rates ranging from 6.82% to 12.0% per annum and yield to maturity ranging from 5.58% to 9.85 % per annum, depending on the issue.

Corporate promissory notes are Rouble-denominated notes of large Russian credit institutions. As at 31 December 2007, promissory notes in the Group's portfolio have maturities from 15 January 2008 to 8 February 2008 and yield to maturity ranging from 6.9% to 7.15% per annum.

Eurobonds of the Russian Federation are US dollar denominated securities issued by the Ministry of Finance of the Russian Federation and quoted on international markets. As at 31 December 2007, eurobonds in the Group's portfolio have maturity date on 31 March 2030, coupon rate of 7.5% per annum and yield to maturity at 4.57% per annum.

Corporate eurobonds are represented by interest-bearing securities denominated in USD, issued by large Russian companies and quoted on international markets. As at 31 December 2007, corporate eurobonds in the Group's portfolio have maturity dates from 24 October 2009 to 13 March 2018, coupon rates ranging from 6.5% to 10.0% per annum in the year 2007 and yield to maturity ranging from 7.43% to 11.81% per annum, depending on the issue.

OVGVZ are US dollar denominated interest-bearing securities payable to bearer and guaranteed by the Ministry of Finance of the Russian Federation. These securities have annual coupon of 3.0%. As at 31 December 2007, OVGVZ in the Group's portfolio have maturity date of 14 May 2008 and annual yield to maturity of 3.99%.

Bonds of foreign governments are represented by bonds of Germany, Belarus, the Netherlands, Latvia and Ukraine.

As the trading securities are stated at fair value determined on the basis of observable market quotations, the Group does not analyse or monitors the impairment indicators.

The credit quality analysis of debt securities as at 31 December 2007 and 2006 has shown that all above-stated classes of financial assets measured at fair value through profit or loss in the total amount of RUR 51 304 994 thousand (2006 : RUR 37 161 141 thousand) are current.

There are no overdue debt trading securities.

There are no revised balances representing the carrying amount of promissory notes with revised conditions whose payment would otherwise be overdue.

Geographic analysis, as well analysis of financial assets at fair value through profit or loss, currency structure and maturity terms and analysis of interest rates are disclosed in Note 30.

7. Due from other banks

	2007	2006
Loans and deposits with other banks	33 982 979	23 426 616
Reverse repo agreements with other banks	6 896 028	5 848 524
Overdue placements with other banks	2 549	2 549
Less: provision for impairment of due from other banks	(28 476)	(9 278)
Total due from other banks	**40 853 080**	**29 268 411**

As at 31 December 2007 the Group had deposits balances, above 10% of the Group capital, in 2 banks (2006: in 3 banks). The aggregate amount of these funds was RUR 11 039 719 thousand (2006 : RUR 12 254 186 thousand).

As at 31 December 2007, securities acquired from banks under reverse repo agreements comprise corporate shares with a fair value of RUR 4 308 690 thousand (2006: RUR 1 105 908 thousand), corporate bonds with a fair value of RUR 3 396 914 thousand (2006: RUR 2 915 348 thousand), bonds of RF subjects with a fair value of RUR 91 970 thousand (2006: 501 968 thousand) and debt securities of RF Ministry of Finance with a fair value of RUR 417 069 thousand (2006: RUR 1 912 269 thousand).

(in thousands of Russian Roubles)

Movements in the provision for impairment of due from other banks are as follows:

	2007	2006
Provision for impairment of due from other banks as at 1 January	9 278	15 221
(Recovery of provision)/Provision for impairment of due from other banks during the year	20 029	(5 943)
Exchange difference	(831)	-
Provision for impairment of due from other banks as at 31 December	**28 476**	**9 278**

The credit quality analysis of due from other banks as at 31 December 2007 and 2006 has shown that all the above classes of due from other banks in the total amount of RUR 40 879 007 thousand are current (2006: RUR 29 275 140 thousand). Due from other banks in the amount of RUR 2 549 thousand (2006: RUR 2 549 thousand) are more than 1 year overdue.

There are no revised balances representing the carrying amount of due from other banks whose payment would otherwise be overdue.

Due from other banks except for "reverse repo" are not collateralised.

Geographical analysis and analysis of due from other banks by currency structure, maturities and interest rates are disclosed in Note 30. The Group provided a number of loans to related parties. The relevant information on related party transactions is disclosed in Note 34.

8. Loans to Customers

	2007	2006
Corporate loans	219 096 665	180 128 367
Loans to small and medium business	42 300 754	24 304 222
Loans to government and municipal authorities	5 524 281	5 400 775
Reverse repo agreements	14 599 704	12 966 465
Less: provision for impairment of loans to legal entities	(2 375 000)	(1 943 440)
Total loans to legal entities	**279 146 404**	**220 856 389**
Consumer loans	35 627 724	10 827 735
Mortgage loans	17 326 936	7 279 747
Car loans	13 816 866	9 814 295
Scoring loans	4 203 119	6 230 637
Credit cards	3 593 714	2 350 311
Overdrafts	57 586	75 928
Less: provision for impairment of loans to individuals	(2 150 118)	(1 392 968)
Total loans to individuals	**72 475 827**	**35 185 685**
Total loans to customers	**351 622 231**	**256 042 074**

The accrued interest income on impaired loans amounted in 2007 to RUR 146 514 thousand (2006: RUR 199 423 thousand).

As at 31 December 2007, the Group had a concentration of loans due from three borrowers (2006: seven borrowers) with the total amount over 10% of the Group's capital. The aggregate amount of these loans was RUR 16 944 403 thousand (2006: RUR 38 468 748 thousand).

As at 31 December 2007, securities acquired under reverse repo agreements comprise corporate shares with the fair value of RUR 6 748 531 thousand (2006: RUR 17 166 248 thousand), corporate bonds with the fair value of RUR 6 242 152 thousand (2006: RUR 3 885 194 thousand), bonds of RF subjects with the fair value of RUR 2 101 871 thousand (2006: RUR: 1 789 147 thousand) and debt securities of the Russian Ministry of Finance with the fair value of RUR 2 099 203 thousand (2006: RUR 448 584 thousand).

There are no revised balances representing the carrying amount of loans to customers whose payment would otherwise be overdue.

(in thousands of Russian Roubles)

Movements in the provision for impairment of loans to legal entities during 2007 are as follows:

	Corporate loans	Loans to small and medium business	Loans to government and municipal authorities	Total
Provision for impairment of loans to legal entities as at 1 January	**1 458 376**	**485 064**	**-**	**1 943 440**
Provision for loan impairment during the year	196 480	247 118	1 600	445 198
Exchange difference	1 005	(8 486)	-	(7 481)
Loans written off during the year as uncollectible	(4 757)	(1 400)	-	(6 157)
Provision for impairment of loans to legal entities as at 31 December	**1 651 104**	**722 296**	**1 600**	**2 375 000**

Movements in the provision for impairment of loans to individuals during 2007 are as follows:

	Consumer loans	Mortgage loans	Car loans	Scoring loans	Credit cards	Overdrafts	Total
Provision for impairment of loans to individuals as at 1 January	**166 049**	**6 076**	**42 514**	**809 644**	**358 127**	**10 558**	**1 392 968**
(Recovery of provision)/Provision for impairment during the year	760 679	20 148	325 814	743 783	132 958	(1 650)	1 981 732
Exchange difference	452	167	(30)	-	-	-	589
Loans written off during the year as uncollectible	(86 937)	-	-	(891 324)	(246 910)	-	(1 225 171)
Provision for impairment of loans to individuals as at 31 December	**840 243**	**26 391**	**368 298**	**662 103**	**244 175**	**8 908**	**2 150 118**

Movements in the provision for impairment of loans legal entities during 2006 are as follows:

	Corporate loans	Loans to small and medium business	Loans to government and municipal authorities	Total
Provision for impairment of loans to legal entities as at 1 January	**1 080 396**	**308 807**	**2 550**	**1 391 753**
(Recovery of provision)/Provision for impairment during the year	398 199	179 144	(2 550)	574 793
Exchange difference	10 040	(2 887)	-	7 153
Loans written off during the year as uncollectible	(30 259)	-	-	(30 259)
Provision for impairment of loans to legal entities as at 31 December	**1 458 376**	**485 064**	**-**	**1 943 440**

(in thousands of Russian Roubles)

Movements in the provision for impairment of loans to individuals during 2006 are as follows:

	Consumer loans	Mortgage loans	Car loans	Scoring loans	Credit cards	Overdrafts	Total
Provision for impairment of loans to individuals as at 1 January	**83 415**	**20 324**	**55 448**	**389 734**	**55 519**	**18 328**	**622 768**
(Recovery of provision)/Provision for impairment during the year	88 211	(13 218)	(12 685)	419 910	302 608	(7 770)	777 056
Exchange difference	(5 577)	(1 030)	(249)	-	-	-	(6 856)
Provision for impairment of loans to individuals as at 31 December	**166 049**	**6 076**	**42 514**	**809 644**	**358 127**	**10 558**	**1 392 968**

Structure of the Group's loan portfolio by type of ownership is as follows:

	2007		2006	
Type of ownership	**Amount**	%	**Amount**	%
Loans to non-state entities and organisations	258 167 041	72.4	208 695 496	80.5
Loans to individuals	74 625 945	21.0	36 578 653	14.1
Loans to enterprises in federal ownership	13 046 627	3.6	6 544 842	2.5
Loans to RF subjects	5 524 281	1.6	5 400 775	2.1
Loans to enterprises owned by the Government of the City of Moscow	4 138 342	1.2	1 966 989	0.7
Loans to enterprises in regional (municipal) ownership (other than the Government of the City of Moscow)	645 113	0.2	191 727	0.1
Total loans to customers (gross)	**356 147 349**	**100.0**	**259 378 482**	**100.0**

Economic sector concentrations within the Group's loan portfolio are as follows:

	2007		2006	
	Amount	%	**Amount**	%
Individuals	74 625 945	21.0	36 578 653	18.0
Financial services	66 528 365	18.7	46 809 867	14.1
Manufacturing	63 113 533	17.7	42 835 070	16.5
Construction	57 140 438	16.0	43 081 197	16.6
Trade	47 747 211	13.4	34 607 624	13.3
Transport and communications	7 678 857	2.2	8 276 820	3.2
Metallurgy	7 496 040	2.1	3 858 138	1.5
Food	6 118 862	1.7	7 682 954	3.0
State agencies	5 524 281	1.6	5 400 775	2.1
Fuel and energy sector	4 962 882	1.4	19 770 017	7.6
Science	2 399 520	0.7	4 474 737	1.7
Agriculture and fishing	1 083 384	0.3	427 347	0.2
Other	11 728 031	3.2	5 575 283	2.2
Total loans to customers (gross)	**356 147 349**	**100.0**	**259 378 482**	**100.0**

(in thousands of Russian Roubles)

The table below contains information on the collateral as at 31 December 2007:

	Guarantees and sureties	Property	Securities	Total
Corporate loans	183 292 942	140 645 845	44 625 455	368 564 242
Loans to small and medium business	116 094 069	50 447 451	2 099 408	168 640 928
Reverse repo agreements	-	-	17 191 757	17 191 757
Total collateral against loans to legal entities	**299 387 011**	**191 093 296**	**63 916 620**	**554 396 927**
Car loans	9 557 942	21 243 026	313	30 801 281
Consumer loans	6 038 965	1 137 577	237 486	7 414 028
Mortgage loans	6 041 858	21 787 515	769 950	28 599 323
Total collateral against loans to individuals	**21 638 765**	**44 168 118**	**1 007 749**	**66 814 632**
Total collateral against loans to customers	**321 025 776**	**235 261 414**	**64 924 369**	**621 211 559**

The table below contains information on the collateral as at 31 December 2006:

	Guarantees and sureties	Property	Securities	Total
Corporate loans	106 766 769	110 363 989	76 136 459	293 267 217
Loans to small and medium business	63 653 302	24 068 820	2 467 601	90 189 723
Reverse repo agreements	-	-	23 289 173	23 289 173
Total collateral against loans to legal entities	**170 420 071**	**134 432 809**	**101 893 233**	**406 746 113**
Car loans	8 573 668	14 999 592	313	23 573 573
Consumer loans	2 964 929	760 712	76 424	3 802 065
Mortgage loans	1 975 120	9 658 192	491 035	12 124 347
Total collateral against loans to individuals	**13 513 717**	**25 418 496**	**567 772**	**39 499 985**
Total collateral against loans to customers	**183 933 788**	**159 851 305**	**102 461 005**	**446 246 098**

The fair value of collateral may vary from the carrying amount.

(in thousands of Russian Roubles)

The credit quality analysis as at 31 December 2007 is shown below:

	Current and unimpaired	Impaired	Total
Corporate loans	117 443 094	101 653 571	219 096 665
Loans to small and medium business	13 819 501	28 481 253	42 300 754
Loans to government and municipal authorities	5 364 281	160 000	5 524 281
Reverse repo agreements	14 599 704	-	14 599 704
Less: provision for impairment of loans to legal entities	-	(2 375 000)	(2 375 000)
Total loans to legal entities	**151 226 580**	**127 919 824**	**279 146 404**
Consumer loans	30 281 576	5 346 148	35 627 724
Scoring loans	3 639 610	563 509	4 203 119
Credit cards	2 877 508	716 206	3 593 714
Car loans	13 004 502	812 364	13 816 866
Mortgage loans	16 958 535	368 401	17 326 936
Overdrafts	45 677	11 909	57 586
Less: provision for impairment of loans to individuals	-	(2 150 118)	(2 150 118)
Total loans to individuals	**66 807 408**	**5 668 419**	**72 475 827**
Total loans to customers	**218 033 988**	**133 588 243**	**351 622 231**

The analysis of impaired loans to customers as at 31 December 2007 is shown below:

	Current	Overdue			Total
		Less than 1 month	From 1 to 6 months	More than 6 months	
Corporate loans	101 629 076	-	3 843	20 652	101 653 571
Loans to small and medium business	28 273 705	57 944	42 134	107 470	28 481 253
Loans to government and municipal authorities	160 000	-	-	-	160 000
Less: provision for impairment of loans to legal entities	(2 181 579)	(43 854)	(38 434)	(111 133)	(2 375 000)
Total impaired loans to legal entities	**127 881 202**	**14 090**	**7 543**	**16 989**	**127 919 824**
Consumer loans	4 736 496	68 090	117 030	424 532	5 346 148
Scoring loans	66 379	5 971	37 663	453 496	563 509
Credit cards	506 621	17 322	49 000	143 263	716 206
Car loans	619 550	5 587	26 218	161 009	812 364
Mortgage loans	351 643	319	7 734	8 705	368 401
Overdrafts	17	1 380	2 418	8 094	11 909
Less: provision for impairment of loans to individuals	(854 257)	(8 670)	(97 445)	(1 189 746)	(2 150 118)
Total impaired loans to individuals	**5 426 449**	**89 999**	**142 618**	**9 353**	**5 668 419**
Total impaired loans to customers	**133 307 651**	**104 089**	**150 161**	**26 342**	**133 588 243**

(in thousands of Russian Roubles)

The credit quality analysis of loans as at 31 December 2006 is shown below:

	Current and unimpaired	Impaired	Total
Corporate loans	111 558 664	68 569 703	180 128 367
Loans to small and medium business	9 294 796	15 009 426	24 304 222
Loans to government and municipal authorities	5 400 775	-	5 400 775
Reverse repo agreements	12 966 465	-	12 966 465
Less: provision for impairment of loans to legal entities	-	(1 943 440)	(1 943 440)
Total loans to legal entities	**139 220 700**	**81 635 689**	**220 856 389**
Consumer loans	9 242 589	1 585 146	10 827 735
Scoring loans	4 978 366	1 252 271	6 230 637
Credit cards	1 861 028	489 283	2 350 311
Car loans	9 298 425	515 870	9 814 295
Mortgage loans	7 163 368	116 379	7 279 747
Overdrafts	70 384	5 544	75 928
Less: provision for impairment of loans to individuals	-	(1 392 968)	(1 392 968)
Total loans to individuals	**32 614 160**	**2 571 525**	**35 185 685**
Total loans to customers	**171 834 860**	**84 207 214**	**256 042 074**

The analysis of impaired loans to customers as at 31 December 2006 is shown below:

	Current	Overdue			Total
		Less than 1 month	From 1 to 6 months	More than 6 months	
Corporate loans	68 568 362	-	-	1 341	68 569 703
Loans to small and medium business	14 784 508	76 916	47 895	100 107	15 009 426
Loans to government and municipal authorities	-	-	-	-	-
Less: provision for impairment of loans to legal entities	(1 717 851)	(76 916)	(47 895)	(100 778)	(1 943 440)
Total impaired loans to legal entities	**81 635 019**	**-**	**-**	**670**	**81 635 689**
Consumer loans	1 469 513	9 443	60 022	46 168	1 585 146
Scoring loans	274 556	7 303	19 620	950 792	1 252 271
Credit cards	329 672	10 600	17 936	131 075	489 283
Car loans	450 953	3 964	5 756	55 197	515 870
Mortgage loans	110 936	79	-	5 364	116 379
Overdrafts	22	1 820	340	3 362	5 544
Less: provision for impairment of loans to individuals	(449 202)	-	(37 005)	(906 761)	(1 392 968)
Total impaired loans to individuals	**2 186 450**	**33 209**	**66 669**	**285 197**	**2 571 525**
Total impaired loans to customers	**83 821 469**	**33 209**	**66 669**	**285 867**	**84 207 214**

Geographical, currency, maturity and interest rate analyses of loans to customers are disclosed in Note 30. The Group has provided a number of loans to related parties. The relevant information on loans to related parties is given in Note 34.

(in thousands of Russian Roubles)

9. Financial Assets Available for Sale

	2007	2006
Equity securities	3 239 911	318 983
Corporate debt securities	448 163	100 806
Corporate eurobonds	93 626	13 857
Less: provision for impairment of financial assets available for sale	(10 519)	(10 519)
Total financial assets available for sale	**3 771 181**	**423 127**

Equity securities mainly represent shares and equity holdings of Moscow enterprises: OJSC Stolichnaya Strakhovaya Gruppa, OJSC Pushkinskaya Ploshchad Polygraphic Company, as well as shares of regional commercial banks JSCB Zarechiye and JSCB Bank of Khakasia».

Corporate debt securities are represented by interest-bearing securities issued by Ukraine companies with maturity ranging from 14 July 2008 to 26 November 2012, coupon rates ranging from 8.02% to 17.0% per annum and yield to maturity ranging from 10.38% to 14.73% per annum.

Movements in the provision for impairment of financial assets available for sale are as follows:

	2007	2006
Provision for impairment of financial assets available for sale as at 1 January	10 519	14 435
Recovery of provision for impairment of financial assets available for sale during the year	-	(3 916)
Provision for impairment of financial assets available for sale as at 31 December	**10 519**	**10 519**

10. Investments in Associates and Non-Consolidated Subsidiaries

	2007	2006
Investments in associates	236 792	722 895
Investments in non-consolidated subsidiaries	30 091	17 931
Total investments in associates and non-consolidated subsidiaries	**266 883**	**740 826**

Movements in the carrying value of investments in associates during the year are as follows:

	2007	2006
Carrying value as at 1 January	722 895	179 946
Share in net profit of the associates	19 113	11 731
Transfer from the financial assets available for sale	-	13 497
Fair value of the increase in the share of the associates	-	11 326
Acquisition/(disposal) of associates	(505 216)	506 395
Carrying value as at 31 December	**236 792**	**722 895**

(in thousands of Russian Roubles)

Below is the list of investments in associates:

Company	2007 Amount of investment	2007 % of control	2006 Amount of investment	2006 % of control
JSCB Russian National Commercial Bank	137 277	20.0	133 850	20.0
JSCB Russky Zemelny Bank	70 572	31.0	57 887	31.0
CJSC Automated Banking Technologies	27 764	20.0	24 763	20.0
Äigrumäe Kinnisvara AS*	1 179	44.5	-	-
City Centre for Data Processing (EIRTS), LLC	-	49.5	-	49.5
VM-Service, LLC	-	48.5	-	48.5
OJSC Moscow Insurance Company**	-	-	506 395	24.8
Total investments in associates	**236 792**		**722 895**	

* The company was formed in the reporting period. The information on the formation of associates is disclosed in Note 27.

** In 2007 the share of control was disposed. Information on the associates' disposal is disclosed in Note 27.

Below is the list of investments in non-consolidated subsidiaries:

Company	2007 Amount of investment	2007 % of control	2006 Amount of investment	2006 % of control
Yaroslavna, LLC	15 520	75.3	14 952	75.3
BM Holding LTD*	9 665	100.0	1 226	100.0
Editorial office of MK-Boulevard magazine, LLC	4 896	50.0	1 753	50.0
CJSC Monolit**	10	99.0	-	-
CJSC Stolichnaya Neftyanaya Kompania	-	-	-	75.0
Total investments in non-consolidated subsidiaries	**30 091**		**17 931**	

* These company's financial statements include financial statements of BoM Finance Ltd., BoM Asset Management Ltd. and Crossplanet Ltd.

** The company was acquired in the reporting period. Information on the subsidiaries' acquisition is disclosed in Note 27.

Financial statements of the above subsidiaries were not included in the Groups' consolidated financial statements, as they do not have a material effect on the consolidated financial statements (less than 0.1% of total assets and net profit of the Group both for the year 2007 and 2006).

(in thousands of Russian Roubles)

11. Premises and Equipment, and Intangible Assets

	Premises	Computers and office equipment and other equipment	Capital investments	Intangible assets	Total
Net book value as at 31 December 2006	**4 197 806**	**1 820 669**	**476 644**	**84 244**	**6 579 363**
Carrying amount					
Balance as at 31 December 2006	4 425 147	3 102 732	476 644	221 729	8 226 252
Additions	614 789	310 897	437 588	457 259	1 820 533
Transfers	10 918	2 593	(13 511)	-	-
Disposals	-	(214 322)	(136 137)	(2 317)	(352 776)
Effect of exchange rate changes	(319)	(4 498)	(12 132)	(651)	(17 600)
Total carrying amount as at 31 December 2007	**5 050 535**	**3 197 402**	**752 452**	**676 020**	**9 676 409**
Accumulated depreciation					
Balance as at 31 December 2006	227 341	1 282 063	-	137 485	1 646 889
Depreciation charge	14 009	286 145	-	64 183	364 337
Disposals	-	(135 589)	-	(2 321)	(137 910)
Effect of exchange rate changes	3 707	(920)	-	253	3 040
Total accumulated depreciation as at 31 December 2007	**245 057**	**1 431 699**	**-**	**199 600**	**1 876 356**
Net book value as at 31 December 2007	**4 805 478**	**1 765 703**	**752 452**	**476 420**	**7 800 053**

(in thousands of Russian Roubles)

	Premises	Computers and office equipment and other equipment	Capital investments	Intangible assets	Total
Net book value as at 31 December 2005	**4 923 290**	**1 738 164**	**352 235**	**93 867**	**7 107 556**
Carrying amount					
Balance as at 31 December 2005	5 052 173	2 894 398	352 235	184 207	8 483 013
Additions	111 717	333 915	551 190	37 447	1 034 269
Transfers	8 146	358 694	(366 840)	-	-
Disposals	(742 643)	(481 365)	(52 777)	(42)	(1 276 827)
Effect of exchange rate changes	(4 246)	(2 910)	(7 164)	117	(14 203)
Total carrying amount as at 31 December 2006	**4 425 147**	**3 102 732**	**476 644**	**221 729**	**8 226 252**
Accumulated depreciation					
Balance as at 31 December 2005	128 883	1 156 234	-	90 340	1 375 457
Depreciation charge	132 150	353 398	-	47 085	532 633
Disposals	(33 299)	(226 100)	-	-	(259 399)
Effect of exchange rate changes	(393)	(1 469)	-	60	(1 802)
Total accumulated depreciation as at 31 December 2006	**227 341**	**1 282 063**	**-**	**137 485**	**1 646 889**
Net book value as at 31 December 2006	**4 197 806**	**1 820 669**	**476 644**	**84 244**	**6 579 363**

(in thousands of Russian Roubles)

Premises comprise buildings and structures. The Group's premises were appraised by an independent appraiser as at 31 December 2002. The net book value of premises as at 31 December 2007 includes the amount of RUR 369 139 thousand (2006: RUR 371 114 thousand), which is a revaluation surplus of the Group's premises. Deferred tax liability arising from this revaluation was computed and posted to revaluation reserve of premises and equipment of Group's equity.

As at 31 December 2007, premises and equipment include property received by the Group under finance lease contract in the total amount of RUR 1 180 095 thousand (2006: RUR 1 130 092 thousand). After expiry of the lease term the right of ownership is transferred to the Group.

Capital investments mainly comprise investments in construction and renovation of premises. As soon as the work is completed, the assets are categorised within premises and equipment as appropriate.

12. Other assets

	2007	2006
Receivables	1 135 627	696 386
Prepayments	519 871	33 876
Prepaid expenses	123 579	153 740
Plastic card receivables	112 376	119 951
Equipment transferred to the Group as loan repayments	104 150	112 492
Tax demand (other than income tax)	8 955	19 177
Other	225 458	35 657
Less: provision for impairment of other assets	(2 750)	(1 816)
Total other assets	**2 227 266**	**1 169 463**

Collateral received by the Group into its ownership for non-payments represents the immovable properties received by the Group in settlement of overdue loans. The Group intends to realize these assets in the foreseeable future. The assets are not classified as held for sale in accordance with IFRS 5, as the Group has not started active marketing of these assets to sell them. These assets were recognized at fair value on acquisition.

The table below shows the analysis of changes in the provision for impairment of other assets:

	2007	2006
Provision for impairment of other assets as at 1 January	**1 816**	**13 976**
(Recovery of provision)/Provision for impairment of other assets	1 001	(12 160)
Exchange differences	(67)	-
Provision for impairment of other assets as at 31 December	**2 750**	**1 816**

The credit quality analysis of receivables as at 31 December 2007 and 31 December 2006 shows that the other financial assets totalling RUR 1 248 003 thousand are current (2006: RUR 816 337 thousand).

The Group does not have any overdue receivables.

Receivables are not secured by collateral.

Geographical analysis and analysis of other assets by currency structure and maturities are disclosed in Note 30.

13. Due to Other Banks

	2007	2006
Syndicated loans of foreign banks	40 117 444	30 780 888
Term deposits and loans of other banks	24 565 374	3 441 342
Correspondent accounts of other banks	2 509 921	995 920
Subordinated loan	2 431 982	2 638 969
Total due to other banks	**69 624 721**	**37 857 119**

As at 31 December 2007, the Group raised funds, over 10% of the Group's capital, of four banks (2006: three banks). The aggregate amount of these funds was RUR 34 258 674 thousand (2006: RUR 12 122 138 thousand).

(in thousands of Russian Roubles)

The Group raised syndicated loans from foreign banks:

Description	Interest rate	Payment schedule	Date of origination	Maturity date	Nominal value, USD'000	Carrying amount, RUR'000
I	LIBOR+0,7%	every half year	11.05.2006	11.05.2009	$400 000	9 857 912
II	LIBOR+0,5%	every half year	03.11.2006	03.11.2008	$500 000	12 984 249
III	LIBOR+0,55%	every half year	19.03.2007	19.03.2010	$105 000	2 567 168
IV	LIBOR+0,55%	every half year	23.11.2007	24.05.2010	$600 000	14 708 115
Total syndicated loans					**$1 605 000**	**40 117 444**

At 21 December 2006, the Group raised a subordinated loan from ABN Amro Bank in the amount of USD 100 000 thousand (or RUR 2 454 620 thousand) maturing on 21 December 2016.

In 2007, the Group raised a loan from Barclays Bank, London in the amount of RUR 5 000 000 thousand maturing on or before 27 March 2009.

In 2007, the Group raised a loan from Sumitomo Mitsui Banking Corporation Europe LTD in the amount of 3 900 000 thousand Japanese yen (or RUR 851 920 thousand) maturing on 18 December 2012.

In 2007 the Group raised a loan from Commerzbank, in the amount of 61 150 thousand Swiss franks (or RUR 1 341 876 thousand) maturing before 2012.

14. Customer Accounts

	2007	2006
Federal and regional budgets and funds		
- Current/settlement accounts	36 169 613	15 579 724
- Term deposits	62 400 000	65 006 000
State-owned organisations		
- Current/settlement accounts	19 976 649	12 884 876
- Term deposits	394 416	410 976
Other legal entities		
- Current/settlement accounts	83 463 772	61 878 203
- Term deposits	21 585 297	17 285 102
Individuals		
- Current/demand accounts	27 509 948	17 960 402
- Term deposits	99 146 528	68 495 835
Total customer accounts	**350 646 223**	**259 501 118**

According to the Russian Civil Code, the Bank is obliged to repay deposits to individual depositors at short notice. If a fixed-term deposit is withdrawn by the depositor ahead of term, interest is payable at the rate applied to demand deposits unless otherwise specified by the contract.

As at 31 December 2007, the Group raised funds, over 10% of the Group's capital, from 4 clients (2006: 5 clients). The aggregate amount of these funds was RUR 117 796 586 thousand (2006 : RUR 99 143 551 thousand).

As at 31 December 2006, funds of other legal entities included RUR 314 910 thousand received from sale of securities under repo agreements: corporate bonds with fair value of RUR 233 738 thousand and bonds of RF subjects with a fair value of RUR 84 718 thousand. As at 31 December 2006, these securities were recorded in the consolidated balance sheet as financial assets at fair value through profit or loss.

Geographical analysis and analysis of customer accounts by currency structure and maturities, as well as analysis of interest rates are disclosed in Note 30. Information on the funds raised from related parties is disclosed in Note 34.

(in thousands of Russian Roubles)

15. Financial Liabilities at Fair Value through Profit or Loss

	2007	2006
Unrealised loss on currency interest rate swaps	108 013	-
Unrealised loss from dealing in foreign currencies	45 920	-
Unrealised loss from dealing in precious metals	77	-
Total financial liabilities at fair value through profit or loss	**154 010**	**-**

16. Debt Securities Issued

	2007	2006
Eurobonds	47 989 195	40 829 569
Promissory notes	7 351 781	9 518 971
Bonds	611 950	144 932
Certificates of deposit	3 365	9 060
Total debt securities issued	**55 956 291**	**50 502 532**

As at 31 December 2007, the bonds issued represent interest-bearing securities with nominal value of EEK 10 thousand, UAH 45 thousand and 25 thousand. EEK-denominated bonds have maturity from 20 February 2008 to 1 April 2008 and coupon rate from 2.8% to 4.9% per annum, depending on the issue. UAH-denominated bonds have maturity from 21 June 2010 to 16 November 2010 and coupon rate of 3% per annum.

As at 31 December 2007, eurobonds comprised:

Description	Interest rate	Date of issue	Maturity date	Nominal value, '000	Carrying amount, RUR'000	Market price
I tranche	8 %, every half year	28.09.2004	28.09.2009	$250 000	6 242 459	103.88
II tranche	7.375 %, every half year	26.05.2005	26.11.2010	$300 000	7 382 074	103.25
III tranche, subordinated	7.5 %, every half year during the first 5 years, then the rate equals US Treasury plus 4.567%	25.11.2005	25.11.2015	$300 000	7 373 158	101.94
IV tranche	7.335%, every half year	13.05.2006	13.05.2013	$500 000	12 095 118	102.67
VI tranche subordinated	6.807%, every half year	10.05.2007	10.05.2017	$400 000	9 879 418	98.36
Total foreign currency eurobonds				**$1 750 000**	**42 972 227**	
V tranche	7.25%, every half year	25.11.2006	25.11.2009	RUR 5 000 000	5 016 968	99.25
Total eurobonds					**47 989 195**	

As at 31 December 2006, eurobonds comprised:

Description	Interest rate	Date of issue	Maturity date	Nominal value, '000	Carrying amount, RUR'000	Market price
I tranche	8 %, every half year	28.09.2004	28.09.2009	$250 000	6 689 234	104.95
II tranche	7.375 %, every half year	26.05.2005	26.11.2010	$300 000	7 913 505	104.44
III tranche, subordinated	7.5 %, every half year during the first 5 years, then the rate equals US Treasury plus 4.567%	25.11.2005	25.11.2015	$300 000	7 904 259	103.65
IV tranche	7.335%, every half year	13.05.2006	13.05.2013	$500 000	13 250 590	105.5
Total foreign currency eurobonds				**$1 350 000**	**35 757 588**	
V tranche	7.25%, every half year	25.11.2006	25.11.2009	RUR 5 000 000	5 071 981	-
Total eurobonds					**40 829 569**	

(in thousands of Russian Roubles)

Geographical analysis and analysis of debt securities issued by currency structure and maturities, as well as analysis of interest rates are disclosed in Note 30.

17. Other Liabilities

	2007	2006
Accounts payable	730 732	644 164
Settlements with employees	681 854	427 777
Plastic cards payables	151 883	128 562
Other	49 712	98 177
Total other liabilities	**1 614 181**	**1 298 680**

As at 31 December 2007, settlements with employees included accrued bonus to the employees in the total amount of RUR 660 366 thousand for the year 2007 (2006: RUR 418 568 thousand) which was paid in two instalments in January and March 2008.

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 30.

18. Minority Interest

Movements in minority interest of the Group are as follows:

	2007	2006
Minority interest as at 1 January	**422 511**	**223 082**
Share in net profit	1 162 627	153 922
Dividends declared	(1 830)	(34 607)
Acquisition of subsidiaries	(161 397)	78 955
Exchange difference	7 134	1 159
Minority interest as at 31 December	**1 429 045**	**422 511**

In 2007 the Group's subsidiary AS Eesti Krediidipank declared dividends for the year 2006 in the amount of RUR 15 888 thousand (2006: RUR 82 014 thousand). The Group reflected changes in minority interest in the amount of RUR 1 830 thousand (2006: RUR 34 607 thousand).

19. Share Capital

Authorised, issued and fully paid share capital comprises:

	31 December 2007		31 December 2006	
	Number of shares	**Nominal value, RUR'000**	**Number of shares**	**Nominal value, RUR'000**
Ordinary shares	130 000 932	13 000 093	123 100 932	12 310 093
Adjustment of share capital prior to 31 December 2002 under IAS 29	-	2 476 746	-	2 476 746
Total share capital	**130 000 932**	**15 476 839**	**123 100 932**	**14 786 839**

The nominal value of each ordinary share is 100 roubles. Each share gives the right of one vote.

The Government of the City of Moscow directly and indirectly (through OJSC Moscow Insurance Company) owns the Bank, being its principal shareholder.

(in thousands of Russian Roubles)

The share capital structure is as follows:

	2007	2006
Government of the City of Moscow	44.00%	46.46%
OJSC Moscow Insurance Company	15.37%	13.48%
LLC NPO FARMATSEVTIKA*	4.51%	4.76%
LLC KHIMPROMEXPORT *	4.20%	4.44%
Other shareholders with less than 5% stake in the share capital	31.92%	30.86%
Total	**100.00%**	**100.00%**

* As at 31 December 2007, the ultimate beneficiaries in the proportion of 80/20 are Mr. A.F. Borodin, President of the Bank, and Mr. L.F. Alaluev, Deputy Chairman of the Board of Directors.

In December 2006 the Moscow Government expressed an intention to establish OJSC Stolichnaya Strakhovaya Gruppa (OJSC SSG) by consolidating the insurance business (including its share in OJSC Moscow Insurance Company) with other participants of the Group. In May 2007 the process of its establishment was completed. As a result of the subscription by the City of Moscow in OJSC SSG in consideration for a contribution of its holding in Moscow Insurance Company the indirect shareholding in the Bank was transferred to OJSC SSG. OJSC SSG is jointly controlled by the City of Moscow and the Group's subsidiary CJSC Financial Assistant.

On 28 April 2007 the Bank of Russia registered placement of the 11th issue of the Bank's shares. 6 900 000 ordinary voting shares with the nominal value of 100 roubles were placed at RUR 928 per share for preference shareholders and at RUR 1 031 per share under public subscription, totalling RUR 6 985 776 thousand, including share premium of RUR 6 295 776 thousand. OJSC Moscow Insurance Company bought out 49% of the 11th issue of shares.

20. Interest Income and Expense

	2007	2006
Interest income		
Loans to customers	31 843 735	22 494 627
Financial assets at fair value through profit or loss and available for sale	4 585 742	3 022 328
Due from other banks	3 114 898	2 097 815
Total interest income	**39 544 375**	**27 614 770**
Interest expense		
Current accounts and term deposits of customers	13 639 449	9 402 922
Debt securities issued	3 695 237	2 569 453
Term deposits of banks	3 132 395	1 561 316
Total interest expense	**20 467 081**	**13 533 691**
Net interest income	**19 077 294**	**14 081 079**

(in thousands of Russian Roubles)

21. Fee and Commission Income and Expense

	2007	2006
Fee and commission income		
Commission on settlement and cash transactions	2 599 497	1 781 783
Commission on operations with plastic cards	1 420 650	986 741
Commission on guarantees issued	382 593	199 833
Commissions from fiduciary activities	361 253	167 861
Commission on transactions with securities	223 321	283 373
Commission on cash collection	178 874	173 552
Other	51 500	236 649
Total fee and commission income	**5 217 688**	**3 829 792**
Fee and commission expense		
Commission on cash collection	437 162	288 820
Commission on operations with plastic cards	359 668	249 625
Commission on settlement and cash transactions	107 623	87 448
Commission on transactions with securities	4 862	26 989
Commission on guarantees received	1 565	1 712
Other	7 022	40 570
Total fee and commission expense	**917 902**	**695 164**
Net fee and commission income	**4 299 786**	**3 134 628**

22. General and Administrative Expenses

	Note	2007	2006
Staff costs		6 400 878	4 616 184
Rent		1 161 263	1 143 607
Taxes other than income tax		879 878	719 341
Professional services (security, communications and other)		776 477	890 487
Advertising and marketing		692 565	368 862
Amortisation and depreciation	11	364 337	532 633
Administrative expenses		307 304	410 147
Expenses related to premises and equipment		289 860	273 030
Charity		67 096	38 639
Other		551 786	346 114
Total general and administrative expenses		**11 491 444**	**9 339 044**

Staff costs include remuneration to employees and unified social tax.

23. Other Operating Income less Expenses

	2007	2006
Fines and penalties received and paid	452 381	188 516
Proceeds from property lease	247 476	104 043
Net income from sale of goods, work and services by non-banks	157 554	73 498
Net profit/(loss) from dealing in precious metals	14 977	(1 147)
Other	100 582	52 431
Total other operating income less expenses	**972 970**	**417 341**

(in thousands of Russian Roubles)

24. Income Tax

Income tax expense comprises the following:

	2007	2006
Current income tax expense	2 735 176	1 829 691
Deferred taxation movement due to origination and reversal of temporary differences	455 368	(148 206)
Except for deferred taxation charged directly to equity	(44 160)	169 591
Total income tax expense	**3 146 384**	**1 851 076**

Each entity of the Group must file individual tax returns.

The current tax rate for profits applicable to the major portion of the profits earned by the Bank of Moscow and its Russian resident subsidiaries in the year 2007 is 24% (2006: 24%). The tax rate for profits for Latvian residents is 15% (2006: 15%), for Ukrainian residents – 25% (2006: 25%), the effective tax rate for Belarus residents - 26.3% (2006: 26.3%).

In the year 2007 the tax rate for received coupon income on state securities was: 15% on coupon income of OFZ and OVGVZ issued in 1999; 0% on OVGVZ coupon income of 5-7 tranches; 24% on coupon income of Russian Government Eurobonds. The tax rate for received coupon income on state securities for RF subjects was 15%, for coupon income on securities of local authorities was 9% in the year 2006.

Current tax expense of the Bank and its subsidiaries located on the territory of the Russian Federation was computed based on the amount of profits calculated under Russian federal accounting regulations and adjusted for compliance with the Russian tax legislation. Accordingly, current tax expense of the subsidiary banks located on the territory of Latvia, Estonia, Belarus and Ukraine was determined in compliance with local tax legislation.

Reconciliation between the theoretical and the actual taxation charge is provided below:

	2007	2006
IFRS profit before taxation	**13 192 614**	**7 628 600**
Theoretical tax charge at the rate of 24% (2006: 24%)	3 166 227	1 830 864
Non-taxable income less non-deductible expenses	212 579	139 946
Income on government securities taxed at different rates	(229 882)	(108 893)
Adjustments for non-resident subsidiary banks' profits taxed at different rates	(2 540)	(10 841)
Income tax expense for the year	**3 146 384**	**1 851 076**

Differences between IFRS and statutory taxation regulations of the Russian Federation and other countries where the Group's entities are registered give rise to certain temporary differences between the carrying value of certain assets and liabilities for consolidated financial reporting purposes and for the Group's profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24% (2006: 24%), except for coupon income on state securities that is taxed at the rate of 15% (2006: 15%).

	2007	Change	2006
Tax effect of deductible temporary differences			
Provision for loan impairment	208 408	168 857	39 551
Other liabilities	96 831	96 831	-
Premises and equipment and intangible assets	69 009	(97 428)	166 437
Deferred tax assets of subsidiary banks	6 638	(18 112)	24 750
Revaluation of financial assets at fair value through profit or loss	-	(2 166)	2 166
Other assets	-	(56 767)	56 767
Total deferred tax assets (gross)	**380 886**	**91 215**	**289 671**
Tax effect of taxable temporary differences			
Premises and equipment and intangible assets	(834 952)	(347 124)	(487 828)
Revaluation of financial assets at fair value through profit or loss	(461 602)	(195 187)	(266 415)
Provision for impairment of other assets	(77 477)	(4 272)	(73 205)
Total deferred tax liabilities (gross)	**(1 374 031)**	**(546 583)**	**(827 448)**
Net deferred tax liabilities	**(993 145)**	**(455 368)**	**(537 777)**

Comparative information for the year 2006 is provided below:

	2006	Change	2005
Tax effect of deductible temporary differences			
Premises and equipment and intangible assets	166 437	(39 822)	206 259
Other assets	56 767	56 767	-
Provision for loan impairment	39 551	(19 001)	58 552
Deferred tax assets of subsidiary banks	24 750	11 134	13 616
Revaluation of financial assets at fair value through profit or loss	2 166	(1 132)	3 298
Total deferred tax assets (gross)	**289 671**	**7 946**	**281 725**
Tax effect of taxable temporary differences			
Provision for impairment of other assets	(73 205)	(57 097)	(16 108)
Revaluation of financial assets at fair value through profit or loss	(266 415)	(142 331)	(124 084)
Premises and equipment and intangible assets	(487 828)	339 688	(827 516)
Total deferred tax liabilities (gross)	**(827 448)**	**140 260**	**(967 708)**
Net deferred tax liabilities	**(537 777)**	**148 206**	**(685 983)**

Change in tax assets and liabilities of the Group for the reporting year is set out below:

	2007	Change	2006
Current tax assets	11 328	(1 396)	12 724
Deferred tax assets	6 638	(18 112)	24 750
Total tax assets	**17 966**	**(19 508)**	**37 474**
Current tax liabilities	(495 986)	(229 550)	(266 436)
Deferred tax liabilities	(999 783)	(437 256)	(562 527)
Total tax liabilities	**(1 495 769)**	**(666 806)**	**(828 963)**

Considering the existing structure of the Group, tax losses and current tax assets of the different entities may not be offset against current tax liabilities and taxable profit of other entities and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, the Group does not offset deferred tax assets of one entity against the deferred tax liability of another entity.

As at 31 December 2007, total deferred tax liability in the amount of RUR 88 593 thousand (2006: RUR 89 067 thousand) was calculated in respect of gain on revaluation of premises at fair value and recorded within equity in accordance with IAS 16 (Note 11).

25. Earnings per Share

Basic earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares during the year less average number of ordinary shares bought out by the Group from its shareholders.

The Group has no potentially dilutive ordinary shares. Therefore, diluted earnings per share equal basic earnings per share.

	2007	2006
Net profit attributable to shareholders of the parent bank (in thousands of roubles)	**8 883 603**	**5 623 602**
Weighted average number of ordinary shares in issue (in thousands)	128 404	119 855
Basic earnings per share (RUR per share)	**69.18**	**46.92**

(in thousands of Russian Roubles)

26. Dividends

	2007	2006
Dividends payable as at 1 January	26	19
Dividends for the year 2006 declared during the year	167 412	-
Dividends for the year 2005 declared during the year	-	161 970
Dividends paid during the year	(167 405)	(161 963)
Dividends payable as at 31 December	**33**	**26**
Dividends per share, declared during the year	**1.36**	**1.08**

Dividends declared for the year 2006 include dividends attributable to the shareholders of the parent bank in the amount of RUR 165 582 thousand (for 2005: RUR 127 363 thousand) and to minority interest in the amount of RUR 1 830 thousand (for 2005: RUR 34 607 thousand).

Dividends paid during the year 2007 attributable to the shareholders of the parent bank totalled RUR 165 575 thousand (2006: RUR 127 356 thousand) and those attributable to minority interest equalled RUR 1 830 thousand (2006: RUR 34 607 thousand).

27. Acquisitions and Disposals

Acquisition of subsidiary banks

AS Eesti Krediidipank

During 2007 the Group acquired 23.37% in the share capital of AS Eesti Krediidipank. Thus, the Group's interest in the share capital of AS Eesti Krediidipank increased to 89.04%.

The fair value of assets and liabilities of AS Eesti Krediidipank and also the excess of the Group's share in the net fair value of identifiable assets, liabilities and contingent liabilities acquired over the cost of acquisition are shown in the table below:

	At the date of acquisition - 31 March 2007	At the date of acquisition - 30 April 2007	At the date of acquisition - 30 June 2007
Cash and cash equivalents	49 123	50 185	61 499
Financial assets at fair value through profit or loss	559 590	570 441	584 972
Due from other banks	3 408 604	3 576 318	4 706 425
Loans to customers	3 468 854	3 889 020	3 963 237
Investments in associates	57	59	58
Premises and equipment	296 037	329 361	330 785
Other assets	216 373	693 638	207 001
Due to other banks	(304 175)	(400 339)	(497 679)
Customer accounts	(6 620 972)	(6 646 522)	(7 943 975)
Debt securities issued	(142 359)	(348 717)	(347 680)
Other liabilities	(365 984)	(1 078 819)	(447 831)
Total net assets	**565 148**	**634 625**	**616 812**
Acquired share in the net assets	**43 742**	**94 880**	**4 189**
The excess of the Group's share in the net fair value of identifiable assets, liabilities and contingent liabilities acquired over the cost of acquisition	**(25 205)**	**(61 297)**	**766**
Consideration paid (gross)	**18 537**	**33 583**	**4 955**

The excess of the Group's share in the net fair values of identifiable assets, liabilities and contingent liabilities of AS Eesti Krediidipank over the cost of acquisition in the amount of RUR 85 736 thousand resulted from acquisition of the additional interest in AS Eesti Krediidipank was recorded within net result on acquisition and sale of subsidiaries and associates of the consolidated statement of income at the time of acquisition.

(in thousands of Russian Roubles)

Acquisition of subsidiaries and associates

BoM Finance Ltd.

In 2007 the Group established BoM Finance Ltd. whose country of registration is British Virgin Islands and share capital amounts to USD 50 thousand.

BoM Asset Management Ltd.

In 2007 the Group established BoM Asset Management Ltd. whose country of registration is Cyprus and share capital amounts to EUR 2 000.

Crossplanet Ltd.

In 2007 the Group established Crossplanet Ltd. whose country of registration is Cyprus and share capital amounts to EUR 2 000.

CJSC Monolit

In 2007 the Group acquired 99% in the share capital of CJSC Monolit for RUR 9 900. The company's country of registration is Russia and its share capital amounts to RUR 10 thousand.

Äigrumäe Kinnisvara AS.

In 2007 the Group set up Äigrumäe Kinnisvara AS with interest of 44.43% in its share capital, the country of registration is Estonia, the share capital amounts to EEK 1 000 thousand.

Disposal of associates

OJSC Moscow Insurance Company

At the beginning of the reporting period the Group owned an interest in the share capital of its associate - OJSC Moscow Insurance Company. The Group's 24.8% interest in the associate's share capital is reflected at fair value in the amount of RUR 506 395 thousand at the beginning of the reporting period.

In the reporting period the Group transferred its interest in the share capital of OJSC Moscow Insurance Company to OJSC Stolichnaya Strakhovaya Gruppa. As a result of withdrawal of OJSC Moscow Insurance Company from associates the Group reflected profit in the amount of RUR 2 289 447 thousand and also impairment of earlier recognised goodwill in the amount of RUR 583 385 thousand within net (loss)/gain on acquisition and sale of subsidiaries and associates.

The assets and liabilities transferred and the cost of disposal are shown in the table below:

	At the date of disposal – 31 May 2007
Cash and cash equivalents	265 988
Financial assets at fair value through profit or loss	1 878 048
Due from other banks	1 692 559
Financial assets available for sale	380 284
Premises and equipment	387 992
Other assets	1 272 844
Due to other banks	(438 493)
Debt securities issued	(799 321)
Other liabilities	(3 606 441)
Total net assets	**1 033 460**
The Group's share in net assets	**506 395**
Proceeds from disposal	**2 909 957**
The excess of the cost of assets acquired over the cost of assets transferred	**2 289 447**
Net proceeds from disposal	**2 795 842**

28. Fiduciary Activities

The Group manages assets of its customers at their request. The Group gets commission for management of customers' assets. The Group has no obligations on fixed payments to customers. Funds managed by the Group on behalf of its customers are excluded from the consolidated balance sheet, as they are not assets of the Group.

(in thousands of Russian Roubles)

The Group manages the following assets at the value as at the date of their transfer under trust management:

	2007	2006
Net assets of Unit Investment Funds	11 217 889	7 641 254
Securities under trust management	3 021 501	2 900 597
Cash on bank accounts and other assets under trust management	380 461	260 451
Total	**14 619 851**	**10 802 302**

29. Segment Reporting

The Group uses information on business segments as its primary format for reporting segment information. Over 95% of the Group's banking business is concentrated on the territory of the Russian Federation at the location of the parent company of the Group – the Bank of Moscow. Based on this, the Group considers unreasonable to segment this business by geographic principle.

The Group's main business segments are as follows:

Treasury business – this business segment includes trading in financial instruments, transactions with securities and derivatives, including REPO deals, foreign currency transactions, raising and origination of loans on interbank loan markets, interest rate arbitrage on SWAP transactions. Besides, the treasury function includes the Group's short-term asset management and the Group's open positions in foreign currencies, i.e. currency risk management.

Corporate business – this business segment includes services associated with servicing settlement and current accounts of legal entities, acceptance of deposits from corporate clients, extension of credit lines in the form of overdrafts, issuance of loans and other types of financing, rendering of investment banking services, trade financing of corporate clients, rendering of structured financing, merging and acquisition consulting services.

Retail business – this segment covers rendering of banking services to individuals - opening and maintaining accounts, acceptance of deposits from individuals, fiduciary services, accumulation of investments, servicing debit and credit cards, consumer and mortgage lending.

The Group transactions not included in the above business segments are disclosed separately.

Transactions between business segments are based on commercial terms. In the ordinary course of business the Group's financial resources are reallocated between business segments. As a result, intersegment allocations are reflected within assets/liabilities of a business segment and the cost of reallocated financial resources is included in the business segment income/expenses.

(in thousands of Russian Roubles)

Segment information on main business segments of the Group for the year ended 31 December 2007 is given in the table below:

	Treasury business	Corporate business	Retail business	Non-banking organisations	Non-allocated	Total
Assets						
Assets on demand, maturing in less than 1 month and part of assets with no stated maturity						
Cash and cash equivalents	1 551 604	44 918 869	17 412 518	37 127	-	63 920 118
Financial assets at fair value through profit or loss	31 169 053	19 836 673	-	306 867	-	51 312 593
Due from other banks	28 702 998	-	-	-	-	28 702 998
Other assets	-	-	112 376	100 170	2 014 720	2 227 266
Total assets on demand, maturing in less than 1 month and part of assets with no stated maturity	**61 423 655**	**64 755 542**	**17 524 894**	**444 164**	**2 014 720**	**146 162 975**
Assets maturing in more than 1 month and part of assets with no stated maturity						
Mandatory cash balances with central banks	-	2 495 133	3 799 694	-	-	6 294 827
Financial assets available for sale	-	541 789	-	3 107 051	122 341	3 771 181
Due from other banks	7 337 494	4 812 588	-	-	-	12 150 082
Loans to customers	-	278 982 822	72 474 432	164 977	-	351 622 231
Tax assets	-	-	-	3 475	14 491	17 966
Investments in associates and non-consolidated subsidiaries	-	-	-	45 544	221 339	266 883
Premises and equipment, and intangible assets	-	-	-	118 364	7 681 689	7 800 053
Total assets maturing in more than 1 month and part of assets with no stated maturity	**7 337 494**	**286 832 332**	**76 274 126**	**3 439 411**	**8 039 860**	**381 923 223**
Total assets	**68 761 149**	**351 587 874**	**93 799 020**	**3 883 575**	**10 054 580**	**528 086 198**

(in thousands of Russian Roubles)

	Treasury business	Corporate business	Retail business	Non-banking organisations	Non-allocated	Total
Liabilities						
Liabilities on demand, maturing in less than 1 month and part of liabilities with no stated maturity						
Due to other banks	6 452 908	-	501 678	-	-	6 954 586
Customer accounts	-	139 610 034	27 509 948	-	-	167 119 982
Financial liabilities at fair value through profit or loss	154 010	-	-	-	-	154 010
Other liabilities	-	-	151 883	29 207	-	181 090
Total liabilities on demand, maturing in less than 1 month and part of liabilities with no stated maturity	**6 606 918**	**139 610 034**	**28 163 509**	**29 207**	**-**	**174 409 668**
Liabilities maturing in more than 1 month and part of liabilities with no stated maturity						
Due to other banks	6 175 376	51 240 783	5 253 976	-	-	62 670 135
Customer accounts	-	84 363 015	99 146 528	16 698	-	183 526 241
Debt securities issued	-	53 823 636	-	2 132 655	-	55 956 291
Other liabilities	-	-	-	-	1 433 091	1 433 091
Tax liabilities	-	-	-	7 579	1 488 190	1 495 769
Total liabilities maturing in more than 1 month and part of liabilities with no stated maturity	**6 175 376**	**189 427 434**	**104 400 504**	**2 156 932**	**2 921 281**	**305 081 527**
Total liabilities	**12 782 294**	**329 037 468**	**132 564 013**	**2 186 139**	**2 921 281**	**479 491 195**
Surplus/(deficit) of funds on demand, maturing in less than 1 month and part of liabilities with no stated maturity	**(54 816 737)**	**74 854 492**	**10 638 615**	**(414 957)**	**(2 014 720)**	**28 246 693**
(Transferred)/received funds on demand, maturing in less than 1 month and part of liabilities with no stated maturity to/from other business segments	54 816 737	(26 653 228)	(28 163 509)	-	-	-
Surplus/(deficit) of funds maturing in more than 1 month and part of liabilities with no stated maturity	**(1 162 118)**	**(97 404 898)**	**28 126 378**	**(1 282 479)**	**(5 118 579)**	**(76 841 696)**
(Transferred)/received funds maturing in more than 1 month and part of liabilities with no stated maturity to/from other business segments	-	8 904 048	(10 601 484)	1 697 436	-	-
Equity financing	1 162 118	40 299 586	-	-	7 133 299	48 595 003
Net uncovered deficit/unallocated surplus on financing	**-**	**-**	**-**	**-**	**-**	**-**

(in thousands of Russian Roubles)

Segment information on main business segments of the Group for the year ended 31 December 2006 is given in the table below:

	Treasury business	Corporate business	Retail business	Non-banking organisations	Non-allocated	Total
Assets						
Assets on demand, maturing in less than 1 month and part of assets with no stated maturity						
Cash and cash equivalents	1 580 657	27 967 879	14 102 889	1 223	-	43 652 648
Financial assets at fair value through profit or loss	23 006 953	14 016 952	-	137 236	-	37 161 141
Due from other banks	24 405 211	-	-	-	-	24 405 211
Other assets	-	-	119 951	83 504	966 008	1 169 463
Total assets on demand, maturing in less than 1 month and part of assets with no stated maturity	**48 992 821**	**41 984 831**	**14 222 840**	**221 963**	**966 008**	**106 388 463**
Assets maturing in more than 1 month and part of assets with no stated maturity						
Mandatory cash balances with central banks	-	3 273 885	3 025 968	-	-	6 299 853
Due from other banks	4 755 177	106 720	1 303	-	-	4 863 200
Financial assets available for sale	-	114 663	-	195 651	112 813	423 127
Loans to customers	-	220 424 283	35 210 406	407 385	-	256 042 074
Goodwill	-	-	-	-	583 385	583 385
Tax assets	-	-	-	3 923	33 551	37 474
Investments in associates and non-consolidated subsidiaries	-	-	-	548 360	192 466	740 826
Premises and equipment, and intangible assets	-	-	-	91 500	6 487 863	6 579 363
Total assets maturing in more than 1 month and part of assets with no stated maturity	**4 755 177**	**223 919 551**	**38 237 677**	**1 246 819**	**7 410 078**	**275 569 302**
Total assets	**53 747 998**	**265 904 382**	**52 460 517**	**1 468 782**	**8 376 086**	**381 957 765**

(in thousands of Russian Roubles)

	Treasury business	Corporate business	Retail business	Non-banking organisations	Non-allocated	Total
Liabilities						
Liabilities on demand, maturing in less than 1 month and part of liabilities with no stated maturity						
Due to other banks	2 488 129	-	373 142	-	-	2 861 271
Customer accounts	-	90 342 803	17 960 402	-	-	108 303 205
Other liabilities	-	-	128 562	129 311	-	257 873
Total liabilities on demand, maturing in less than 1 month and part of liabilities with no stated maturity	**2 488 129**	**90 342 803**	**18 462 106**	**129 311**	**-**	**111 422 349**
Liabilities maturing in more than 1 month and part of liabilities with no stated maturity						
Due to other banks	596 504	34 399 344	-	-	-	34 995 848
Customer accounts	-	82 700 515	68 495 835	1 563	-	151 197 913
Debt securities issued	2 354 133	46 552 503	-	1 595 896	-	50 502 532
Other liabilities	-	-	-	-	1 040 807	1 040 807
Tax liabilities	-	-	-	3 236	825 727	828 963
Total liabilities maturing in more than 1 month and part of liabilities with no stated maturity	**2 950 637**	**163 652 362**	**68 495 835**	**1 600 695**	**1 866 534**	**238 566 063**
Total liabilities	**5 438 766**	**253 995 165**	**86 957 941**	**1 730 006**	**1 866 534**	**349 988 412**
Surplus/(deficit) of funds on demand, maturing in less than 1 month and part of liabilities with no stated maturity	**(46 504 692)**	**48 357 972**	**4 239 266**	**(92 652)**	**(966 008)**	**5 033 886**
(Transferred)/received funds on demand, maturing in less than 1 month and part of liabilities with no stated maturity to/from other business segments	46 504 692	(28 042 586)	(18 462 106)	-	-	-
Surplus/(deficit) of funds maturing in more than 1 month and part of liabilities with no stated maturity	**(1 804 540)**	**(60 267 189)**	**30 258 158**	**353 876**	**(5 543 544)**	**(37 003 239)**
(Transferred)/received funds maturing in more than 1 month and part of liabilities with no stated maturity to/from other business segments	-	16 296 542	(16 035 318)	(261 224)	-	-
Equity financing	1 804 540	23 655 261	-	-	6 509 552	31 969 353
Net uncovered deficit/unallocated surplus on financing	**-**	**-**	**-**	**-**	**-**	**-**

(in thousands of Russian Roubles)

The table below shows a breakdown of consolidated statement of income of the Group by business segments for the year ended 31 December 2007:

	Treasury business	Corporate business	Retail business	Non-banking organisations	Non-allocated	Total
Interest income	6 350 438	24 361 115	8 771 835	60 987	-	39 544 375
Interest expense	(1 487 053)	(11 607 840)	(7 259 901)	(112 287)	-	(20 467 081)
Gains less losses arising from financial assets at fair value through profit or loss and available for sale	573 455	-	-	32 804	-	606 259
Gains less losses from dealing in foreign currency	662 761	-	278 344	-	-	941 105
Net operating result on banking assets and liabilities	**6 099 601**	**12 753 275**	**1 790 278**	**(18 496)**	**-**	**20 624 658**
Income/(expense) on re-allocation of funds on demand, maturing in less than one month and part with no stated maturity	(3 552 026)	1 914 916	1 637 110	-	-	-
Income/(expense) on re-allocation of funds maturing in more than one month and part with no stated maturity	-	(1 582 539)	1 813 694	(231 155)	-	-
Net operating result on banking assets and liabilities after intersegment re-allocations	**2 547 575**	**13 085 652**	**5 241 082**	**(249 651)**	**-**	**20 624 658**
Fee and commission income	223 321	2 214 314	2 565 444	214 609	-	5 217 688
Fee and commission expense	(4 678)	(548 014)	(364 927)	(283)	-	(917 902)
Provisions for impairment of due from other banks and loans to customers	(20 029)	(443 107)	(1 982 321)	(1 502)	-	(2 446 959)
General and administrative expenses	(462 480)	(3 815 460)	(4 237 983)	(255 209)	(2 720 312)	(11 491 444)
Other income/(expense)	-	-	(585 986)	2 100 821	691 738	2 206 573
Profit before taxation	**2 283 709**	**10 493 385**	**635 309**	**1 808 785**	**(2 028 574)**	**13 192 614**
Income tax expense				(54 340)	(3 092 044)	(3 146 384)
Profit after taxation	**2 283 709**	**10 493 385**	**635 309**	**1 754 445**	**(5 120 618)**	**10 046 230**
Minority interest					(1 162 627)	(1 162 627)
Net profit	**2 283 709**	**10 493 385**	**635 309**	**1 754 445**	**(6 283 245)**	**8 883 603**

(in thousands of Russian Roubles)

The table below shows a breakdown of consolidated statement of income of the Group by business segments for the year ended 31 December 2006:

	Treasury business	Corporate business	Retail business	Non-banking organisations	Non-allocated	Total
Interest income	4 322 732	19 006 954	4 276 850	8 234	-	27 614 770
Interest expense	(457 505)	(7 971 373)	(5 097 730)	(7 083)	-	(13 533 691)
Gains less losses arising from financial assets at fair value through profit or loss and available for sale	133 860	-	-	5 957	-	139 817
Gains less losses from dealing in foreign currency	671 845	-	225 266	(3 054)	-	894 057
Net operating result on banking assets and liabilities	**4 670 932**	**11 035 581**	**(595 614)**	**4 054**	**-**	**15 114 953**
Income/(expense) on re-allocation of funds on demand, maturing in less than one month and part with no stated maturity	(2 660 674)	1 575 731	1 084 943	-	-	-
Income/(expense) on re-allocation of funds maturing in more than one month and part with no stated maturity	-	(3 385 226)	3 349 124	36 102	-	-
Net operating result on banking assets and liabilities after intersegment re-allocations	**2 010 258**	**9 226 086**	**3 838 453**	**40 156**	**-**	**15 114 953**
Fee and commission income	283 373	1 662 745	1 799 582	84 092	-	3 829 792
Fee and commission expense	(26 989)	(412 922)	(255 229)	(24)	-	(695 164)
Provisions for impairment of due from other banks and loans to customers	5 943	(582 108)	(768 956)	(785)	-	(1 345 906)
General and administrative expenses	(350 458)	(2 891 276)	(3 211 571)	(200 824)	(2 684 915)	(9 339 044)
Other income/(expense)	-	-	(410 543)	100 257	374 255	63 969
Profit before taxation	**1 922 127**	**7 002 525**	**991 736**	**22 872**	**(2 310 660)**	**7 628 600**
Income tax expense	-	-	-	(26 934)	(1 824 142)	(1 851 076)
Profit after taxation	**1 922 127**	**7 002 525**	**991 736**	**(4 062)**	**(4 134 802)**	**5 777 524**
Minority interest	-	-	-	-	(153 922)	(153 922)
Net profit	**1 922 127**	**7 002 525**	**991 736**	**(4 062)**	**(4 288 724)**	**5 623 602**

30. Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational and legal risks.

The main risk management activity is to identify, measure and control the above-mentioned risks, take management decisions to avoid or minimise risks (hedging, reallocation, diversification, etc.).

The Group implemented a three-level risk management system. At the first level, business units exercise preliminary and operational control over the established limits in the course of transactions. At the second level, back office controls compliance of business units with the established limits. At the third level, preliminary and subsequent risk control is exercised independently by specialised divisions, which are charged with risk control functions.

The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The assessment of exposure to risks also serves as a basis for optimal distribution of risk-adjusted capital, transaction pricing and business performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

In accordance with strategic tasks in the management area a comprehensive system for management of all types of risks is functioning and developing within the Group. Further efforts will be aimed at development of the existing risk management methods and instruments, as well as systematisation and integration of risk assessment and management methods with regard for international standards.

Credit risk. Credit risk is the risk of financial losses caused by inability of the Group's borrower or counterparty to meet their liabilities.

The following methods of control and management are applied to manage credit risk.

Risk assessment. The risk by each credit product is assessed on the basis of internal bank ratings. The level of risk for individual borrowers is assessed with the use of scoring methods. To assess credit risk exposure on loans to legal entities the following instruments are used.

Limits on transactions for provision of credit products. The limiting system comprises:

- scope limits, which limit credit risk concentration by division, type of products, region, industry, etc.;
- scope limits for separate counterparties;
- limits by each credit product, calculated in accordance with own methods of credit risk assessment;
- risk limits, which set up maximum admissible risk of separate divisions' portfolios;
- maturity limits depending on risk level by product, type and other terms of lending;
- limits of personified lending authority.

Limit values are updated on a regular basis in accordance with current level of credit risk and macro- and microeconomic situation. Compliance of authorised persons and management bodies with set limits is monitored daily.

Monitoring of credit risk of operating products is conducted regularly and is aimed at detection of risk-increasing factors in order to further neutralise them and reduce concentration.

The Group developed the policy and procedures related to credit risk management. These include requirements for setting of and complying with the limits on loan portfolio concentration and provide for establishment of the Credit Committee to monitor credit risk exposure of the Group.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal debt repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Group's maximum exposure to credit risk is primarily reflected in the carrying value of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For loan guarantees and commitments, the maximum exposure to credit risk is equal to total liabilities (see Note 31).

The Group performs the loan maturity analysis and subsequent monitoring of overdue balances. Therefore, the management provides information on overdue maturities and other information on credit risk, as described in Notes 6, 7, 8, 9.

Credit risk on off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in managing contingent obligations as it does for balance sheet financial instruments based on procedures of authorisation of deals, risk control limits and monitoring of the financial position of counterparty.

The policy of the credit risk management is reviewed and approved by the Board.

Market risks. Market risks are the risks of potential losses due to decreases in the value of securities portfolio and other traded assets as a result of adverse movements in market parameters (prices, interest and currency exchange rates). The following methods of control and management are applied to market risks.

Market risk assessment is performed using two main methods: statistical probability method and method of historical modelling. These methods allow to calculate the amount of potential gains or losses of the portfolio over a specified time horizon and level of reliability.

At the same time, stress-testing of portfolios is carried out allowing (under different scenarios) to evaluate stability and maximum financial loss for market instrument portfolios.

The market risk *limiting system* is similar to the credit risk limiting system, but it has a number of peculiarities consisting in the use of special limits applicable only to this type of risk (stop-loss limits, etc.).

Market risk *monitoring* encompasses revaluing all open positions at market prices in order to identify present value of portfolios and changes in estimates of expected potential losses.

Hedging implies additional transactions with financial instruments with similar characteristics for guaranteed limitation of losses.

Market risks may be reduced without decrease in the expected yield by means of portfolio *diversification*, mainly, diversification into different market instruments and segments.

The Group manages market risks by increasing or decreasing its position within the limits set by the Group management. These limits mitigate possible effect of changes in the market financial indicators on the Group's income and value of sensitive assets and liabilities.

The procedures of market risk management, as well as the tariff policy of the Group, are reviewed and approved by the Financial Committee.

Interest rate risk is determined by the level of changes in interest rates on interest margin and net interest income. Interest margins may increase or decrease as a result of such changes, depending on different structure of interest-bearing assets and liabilities.

In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The management of the Group sets limits on the level of acceptable mismatch of interest rate re-pricing terms, which are monitored daily. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

(in thousands of Russian Roubles)

The table below summarises the Group's exposure to interest rate risks for the year ended 31 December 2007. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/ interest-free	Total
Assets						
Cash and cash equivalents	8 159 739	-	-	-	55 760 379	63 920 118
Mandatory cash balances with central banks	-	-	-	-	6 294 827	6 294 827
Financial assets at fair value through profit or loss	4 199 478	5 645 304	1 077 255	35 201 628	5 188 928	51 312 593
Due from other banks	30 262 772	3 453 326	7 074 873	62 109	-	40 853 080
Loans to customers	22 417 424	76 623 103	77 323 643	175 258 061	-	351 622 231
Financial assets available for sale	-	94 171	286 896	160 722	3 229 392	3 771 181
Investments in associates and non-consolidated subsidiaries	-	-	-	-	266 883	266 883
Premises and equipment, and intangible assets	-	-	-	-	7 800 053	7 800 053
Other assets	-	-	-	-	2 227 266	2 227 266
Tax assets	-	-	-	-	17 966	17 966
Total assets	**65 039 413**	**85 815 904**	**85 762 667**	**210 682 520**	**80 785 694**	**528 086 198**
Liabilities						
Due to other banks	295 105	49 609 636	3 473 193	16 246 787	-	69 624 721
Customer accounts	148 590 163	90 515 445	52 440 519	12 923 070	46 177 026	350 646 223
Financial liabilities at fair value through profit or loss	154 010	-	-	-	-	154 010
Debt securities issued	2 696 357	1 738 017	3 437 934	48 083 983	-	55 956 291
Other liabilities	-	-	-	-	1 614 181	1 614 181
Tax liabilities	-	-	-	-	1 495 769	1 495 769
Total liabilities	**151 735 635**	**141 863 098**	**59 351 646**	**77 253 840**	**49 286 976**	**479 491 195**
Net interest rate gap as at 31 December 2007	**(86 696 222)**	**(56 047 194)**	**26 411 021**	**133 428 680**	**31 498 718**	**48 595 003**
Cumulative interest rate gap as at 31 December 2007	**(86 696 222)**	**(142 743 416)**	**(116 332 395)**	**17 096 285**	**48 595 003**	**-**

(in thousands of Russian Roubles)

General analysis of interest rate risk of the Group for the year ended 31 December 2006 is provided below.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/ interest-free	Total
Assets						
Cash and cash equivalents	5 678 013	-	-	-	37 974 635	43 652 648
Mandatory cash balances with central banks	-	-	-	-	6 299 853	6 299 853
Financial assets at fair value through profit or loss	2 530 436	2 653 793	6 077 008	21 091 193	4 808 711	37 161 141
Due from other banks	24 146 154	948 414	4 145 333	28 510	-	29 268 411
Loans to customers	25 052 947	66 735 164	74 373 859	89 880 104	-	256 042 074
Financial assets available for sale	6 332	24 632	69 842	13 857	308 464	423 127
Investments in associates and non-consolidated subsidiaries	-	-	-	-	740 826	740 826
Goodwill	-	-	-	-	583 385	583 385
Premises and equipment, and intangible assets	-	-	-	-	6 579 363	6 579 363
Other assets	-	-	-	-	1 169 463	1 169 463
Tax assets	-	-	-	-	37 474	37 474
Total assets	**57 413 882**	**70 362 003**	**84 666 042**	**111 013 664**	**58 502 174**	**381 957 765**
Liabilities						
Due to other banks	2 215 134	31 852 672	244 492	3 544 821	-	37 857 119
Customer accounts	85 328 089	36 430 469	96 673 710	10 147 519	30 921 331	259 501 118
Debt securities issued	3 661 632	5 550 466	401 231	40 889 203	-	50 502 532
Other liabilities	-	-	-	-	1 298 680	1 298 680
Tax liabilities	-	-	-	-	828 963	828 963
Total liabilities	**91 204 855**	**73 833 607**	**97 319 433**	**54 581 543**	**33 048 974**	**349 988 412**
Net interest rate gap as at 31 December 2006	**(33 790 973)**	**(3 471 604)**	**(12 653 391)**	**56 432 121**	**25 453 200**	**31 969 353**
Cumulative interest rate gap as at 31 December 2006	**(33 790 973)**	**(37 262 577)**	**(49 915 968)**	**6 516 153**	**31 969 353**	**-**

(in thousands of Russian Roubles)

If as at 31 December 2007 the interest rates had been by 50 basis points lower, provided all other conditions remained unchanged, the profit for the year would have been by RUR 175 080 thousand (2006: by RUR 475 884 thousand) lower as a result of the decreased interest income on loans.

If as at 31 December 2007 the interest rates had been by 50 basis points higher, provided all other conditions remained unchanged, the profit for the year would have been by RUR 175 080 thousand (2006: by RUR 475 884 thousand) higher as a result of the increased interest income on loans.

The table below shows analysis of average effective interest rates by currency for main monetary financial instruments. The analysis was prepared on the basis of weighted average interest rates at the end of the year.

	USD		EUR		RUR	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Assets						
Due from other banks	5.54%	8.59%	4.02%	4.68%	6.53%	6.47%
Loans to customers	9.72%	9.41%	8.54%	8.99%	10.97%	12.45%
Financial assets at fair value through profit or loss	6.40%	5.99%	3.58%	-	8.67%	8.38%
Financial assets available for sale	-	8.00%	-	-	-	-
Liabilities						
Due to other banks	5.78%	6.40%	4.85%	4.05%	5.55%	4.47%
Customer accounts	5.22%	6.06%	6.10%	5.75%	4.63%	5.27%
Debt securities issued	7.33%	7.62%	4.96%	4.58%	6.92%	6.44%

(in thousands of Russian Roubles)

Geographical concentration of the Group's assets and liabilities as at 31 December 2007 is set out below:

	Russia	OECD	Other	Total
Assets				
Cash and cash equivalents	55 847 318	6 238 283	1 834 517	63 920 118
Mandatory cash balances with central banks	6 014 574	-	280 253	6 294 827
Financial assets at fair value through profit or loss	49 790 309	668 084	854 200	51 312 593
Due from other banks	8 450 968	29 827 516	2 574 596	40 853 080
Loans to customers	315 238 807	260 172	36 123 252	351 622 231
Financial assets available for sale	3 229 392	-	541 789	3 771 181
Investments in associates and non-consolidated subsidiaries	256 039	9 665	1 179	266 883
Premises and equipment, and intangible assets	6 819 805	-	980 248	7 800 053
Other assets	1 958 064	11 171	258 031	2 227 266
Tax assets	17 915	-	51	17 966
Total assets	**447 623 191**	**37 014 891**	**43 448 116**	**528 086 198**
Liabilities				
Due to other banks	6 544 004	44 937 967	18 142 750	69 624 721
Customer accounts	332 218 905	1 085 719	17 341 599	350 646 223
Financial liabilities at fair value through profit or loss	148 937	-	5 073	154 010
Debt securities issued	7 355 146	47 989 195	611 950	55 956 291
Other liabilities	1 302 095	-	312 086	1 614 181
Tax liabilities	1 495 769	-	-	1 495 769
Total liabilities	**349 064 856**	**94 012 881**	**36 413 458**	**479 491 195**
Net balance sheet position as at 31 December 2007	**98 558 335**	**(56 997 990)**	**7 034 658**	**48 595 003**

(in thousands of Russian Roubles)

Geographical concentration of the Group's assets and liabilities as at 31 December 2006 is set out below:

	Russia	OECD	Other	Total
Assets				
Cash and cash equivalents	38 972 360	3 439 561	1 240 727	43 652 648
Mandatory cash balances with central banks	6 064 951	-	234 902	6 299 853
Financial assets at fair value through profit or loss	35 896 904	548 389	715 848	37 161 141
Due from other banks	17 182 239	10 510 448	1 575 724	29 268 411
Loans to customers	225 734 150	243 624	30 064 300	256 042 074
Financial assets available for sale	294 208	1 689	127 230	423 127
Investments in associates and non-consolidated subsidiaries	740 826	-	-	740 826
Goodwill	583 385	-	-	583 385
Premises and equipment, and intangible assets	5 870 347	-	709 016	6 579 363
Other assets	858 032	-	311 431	1 169 463
Tax assets	12 656	-	24 818	37 474
Total assets	**332 210 058**	**14 743 711**	**35 003 996**	**381 957 765**
Liabilities				
Due to other banks	2 018 087	30 300 958	5 538 074	37 857 119
Customer accounts	246 792 002	1 917 425	10 791 691	259 501 118
Debt securities issued	9 528 031	40 829 569	144 932	50 502 532
Other liabilities	750 473	51 258	496 949	1 298 680
Tax liabilities	827 387	-	1 576	828 963
Total liabilities	**259 915 980**	**73 099 210**	**16 973 222**	**349 988 412**
Net balance sheet position as at 31 December 2006	**72 294 078**	**(58 355 499)**	**18 030 774**	**31 969 353**

(in thousands of Russian Roubles)

Currency risk. The Group takes on exposure to effects of foreign currency exchange rates volatility on its financial position and cash flows. The Financial Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. In the table below the analysis of Group's position on currency as at 31 December 2007 is presented. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency.

	RUR	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	53 328 449	3 604 025	2 498 185	4 489 459	63 920 118
Mandatory cash balances with central banks	6 014 574	-	-	280 253	6 294 827
Financial assets at fair value through profit or loss	40 265 575	9 708 088	643 998	692 932	51 312 593
Due from other banks	8 089 459	11 338 412	19 204 046	2 221 163	40 853 080
Loans to customers	247 370 044	85 396 204	10 475 763	8 380 220	351 622 231
Financial assets available for sale	3 228 782	93 626	610	448 163	3 771 181
Investments in associates and non-consolidated subsidiaries	256 039	-	-	10 844	266 883
Premises and equipment, and intangible assets	6 819 805	-	-	980 248	7 800 053
Other assets	1 860 512	165 225	61 593	139 936	2 227 266
Tax assets	17 915	-	-	51	17 966
Total assets	**367 253 154**	**110 305 580**	**32 884 195**	**17 643 269**	**528 086 198**
Liabilities					
Due to other banks	11 024 612	42 857 763	11 753 005	3 989 341	69 624 721
Customer accounts	291 080 381	21 937 906	29 744 472	7 883 464	350 646 223
Financial liabilities at fair value through profit or loss	-	-	-	154 010	154 010
Debt securities issued	10 654 670	44 503 514	186 157	611 950	55 956 291
Other liabilities	1 205 846	239 244	49 860	119 231	1 614 181
Tax liabilities	1 495 769	-	-	-	1 495 769
Total liabilities	**315 461 278**	**109 538 427**	**41 733 494**	**12 757 996**	**479 491 195**
Net balance sheet position as at 31 December 2007	**51 791 876**	**767 153**	**(8 849 299)**	**4 885 273**	**48 595 003**

(in thousands of Russian Roubles)

As at 31 December 2006, the Group had the following positions in currency:

	RUR	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	39 433 002	2 322 669	902 548	994 429	43 652 648
Mandatory cash balances with central banks	6 064 951	-	-	234 902	6 299 853
Financial assets at fair value through profit or loss	31 452 568	4 332 195	553 505	822 873	37 161 141
Due from other banks	16 320 982	10 506 853	2 035 107	405 469	29 268 411
Loans to customers	169 731 188	75 583 283	9 459 856	1 267 747	256 042 074
Financial assets available for sale	308 414	13 857	-	100 856	423 127
Investments in associates and non-consolidated subsidiaries	740 826	-	-	-	740 826
Goodwill	583 385	-	-	-	583 385
Premises and equipment, and intangible assets	5 870 347	-	-	709 016	6 579 363
Other assets	835 122	37 084	90 241	207 016	1 169 463
Tax assets	12 656	-	-	24 818	37 474
Total assets	**271 353 441**	**92 795 941**	**13 041 257**	**4 767 126**	**381 957 765**
Liabilities					
Due to other banks	1 015 309	35 276 444	1 201 826	363 540	37 857 119
Customer accounts	227 486 168	21 394 855	6 526 157	4 093 938	259 501 118
Debt securities issued	12 333 031	37 956 472	68 097	144 932	50 502 532
Other liabilities	239 773	851 341	65 090	142 476	1 298 680
Tax liabilities	827 387	-	-	1 576	828 963
Total liabilities	**241 901 668**	**95 479 112**	**7 861 170**	**4 746 462**	**349 988 412**
Net balance sheet position as at 31 December 2006	**29 451 773**	**(2 683 171)**	**5 180 087**	**20 664**	**31 969 353**

The Group issued loans in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of the currencies against the Russian Rouble may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

(in thousands of Russian Roubles)

The table below shows the change in the financial result and equity as a result of possible fluctuations of exchange rates used as at the balance sheet date if all other conditions remain unchanged:

	2007		2006	
	Effect on profit or loss before taxation	**Effect on equity**	**Effect on profit or loss before taxation**	**Effect on equity**
USD appreciation by 5%	38 358	29 152	(134 159)	(101 961)
USD depreciation by 5%	(38 358)	(29 152)	134 159	101 961
EUR appreciation by 5%	(442 465)	(336 273)	259 004	196 843
EUR depreciation by 5%	442 465	336 273	(259 004)	(196 843)
Appreciation of other currencies by 5%	244 264	185 641	1 033	785
Depreciation of other currencies by 5%	(244 264)	(185 641)	(1 033)	(785)

The risk was calculated only for cash balances in currencies other than the Group's functional currency.

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to risk via daily calls from customers on its available cash resources from current accounts, maturing deposits, loan draw downs, guarantees and other calls on cash settled derivatives. The Group does not accumulate cash resources to meet calls on all liabilities mentioned above, as based on the existing practice, it is possible to forecast with a sufficient degree of certainty the required level of cash funds necessary to meet the above obligations.

The Group developed liquidity management tools with the objective of maintaining the availability of funds to meet its liabilities as they come due. The liquidity management policy of the Group is reviewed and approved by the Financial Committee.

Liquidity is managed based on the following main principles:

- *substantiated assessment and forecasting* of liquidity crisis,
- *pro-active approach* to prevention/successful overcoming of possible crisis,
- *methods of effective liquidity management,*
- *methods of effective control* over functioning of liquidity management system and preparation of internal and external reports.

To maintain objective reflection of actual situation the Group implemented a system of mandatory segregation of rights and responsibilities between the bodies comprising the liquidity management system, which:

- take strategic decisions;
- manage liquidity;
- analyse and control the process.

To manage its liquidity, the Group and the Bank are required to analyse the level of liquid assets needed to settle the liabilities on their maturity by providing access to various sources of financing, drawing up plans to solve the problems with financing and exercising control over compliance of the balance sheet liquidity ratios with the laws and regulations. The Bank calculates the liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of the Russian Federation. These ratios include:

- Quick liquidity ratio (H2) calculated as a ratio of highly liquid assets and liabilities on demand. As at 31 December 2007, this ratio was 42.9% (2006: 51.1%).
- Current liquidity ratio (H3) calculated as a ratio of liquid assets and liabilities maturing within 30 calendar days. As at 31 December 2007, this ratio was 71.3% (2006: 79.6%).
- Long-term liquidity ratio (H4) calculated as a ratio of assets maturing in more than 1 year to equity and liabilities maturing in more than 1 year. As at 31 December 2007, this ratio was 115.5% (2006: 72.2%).

The basic technique of management and control of the Group's liquidity is a gap management and duration matching of the Group's assets and liabilities (GAP analysis). This technique allows assessing the Group's position in the short, medium and long term with regard for planned changes in cash accounting and write-off.

To manage *quick liquidity* the Group applies the principle of anticipatory receipt and use in calculations of the information about its calendar transactions, customer deposits/write-offs on the basis of forecast and insider information. Quick liquidity is monitored and managed using the automated payment accounting system.

(in thousands of Russian Roubles)

To manage *current and medium-term liquidity* the Group uses cash-flow calendar which helps to assess liquidity and impact on liquidity of large transactions and arrangements carried out to obtain the desirable values.

The scenario analysis performed by the Group represents different options of modelling payment flows with regard for planned, probabilistic and strategic indicators of the Group performance.

Within the framework of each scenario, significant positive and negative fluctuations of liquidity are considered over the entire projected period. The information on the market condition and demand is also taken into account.

Based on the scenario analysis, the Bank's liquidity indicators are assessed and tested for compliance with internal and external standard requirements.

Statical analysis of quick, current and long-term liquidity is carried out by calculating economic ratios required by the Central Bank of Russia. In case of significant (exceeding 20%) changes in values of ratios for the last 3 months, especially for the last month of the period, reasons (or movements in assets and liabilities), which gave rise to material changes in these ratios are analysed.

The Group envisaged measures to be taken in case of insufficient liquidity and failure to cover gap using traditional sources. Depending on the complexity of the situation and general condition of the financial system the Group can act as follows:

- sell part of assets in descending its liquidity;
- enter into REPO transactions with the Central Bank of Russia;
- restrict growth of assets in certain types of business;
- change rates and tariffs;
- work purposefully with major clients and counterparties to make long-term placements.

The following table shows the liabilities as at 31 December 2007 by their remaining contractual maturity. The amounts in the table represent contractual undiscounted cash flows and total commitments to extend credits. These undiscounted cash flows differ from the amounts recorded on the balance sheet as the balance sheet amounts are based on discounted cash flows.

In those cases when the amount to be paid is not fixed, the amount in the table is determined on the basis of conditions prevailing at the balance sheet date. Foreign currency payments are translated using the spot exchange rates effective at the balance sheet date.

The table below shows the maturity analysis of financial liabilities as at 31 December 2007:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Due to other banks	369 810	10 038 837	16 097 724	45 856 444	72 362 815
Customer accounts	193 967 408	92 106 715	54 312 101	12 319 643	352 705 867
Debt securities issued	2 968 469	2 642 024	5 837 812	63 351 404	74 799 709
Total potential future payments under financial liabilities	**197 305 687**	**104 787 576**	**76 247 637**	**121 527 491**	**499 868 391**

(in thousands of Russian Roubles)

The table below shows the maturity analysis of financial liabilities as at 31 December 2006:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Due to other banks	2 216 253	8 924 188	1 338 148	29 843 293	42 321 882
Customer accounts	115 932 061	37 388 868	97 495 437	10 225 945	261 042 311
Debt securities issued	3 661 632	6 595 145	2 428 473	54 387 847	67 073 097
Total potential future payments under financial liabilities	**121 809 946**	**52 908 201**	**101 262 058**	**94 457 085**	**370 437 290**

The customer accounts are reflected in the above analysis by the term to maturity. However, in accordance with the Civil Code of the Russian Federation, the individuals have the right to withdraw funds from accounts before maturity in which case they lose the accrued interest.

The Group does not use the above undiscounted amounts in the maturity analysis to monitor the liquidity profile. Instead, the Group monitors the expected maturity limits taking into account actual change in balances for the last 12 months.

(in thousands of Russian Roubles)

The table below shows the expected maturity analysis of assets and liabilities as at 31 December 2007:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	63 920 118	-	-	-	-	63 920 118
Mandatory cash balances with central banks	-	-	-	-	6 294 827	6 294 827
Financial assets at fair value through profit or loss	51 312 593	-	-	-	-	51 312 593
Due from other banks	34 384 912	2 095 407	4 065 497	307 264	-	40 853 080
Loans to customers	16 086 312	73 864 135	78 450 885	183 220 899	-	351 622 231
Financial assets available for sale	-	94 171	286 896	93 626	3 296 488	3 771 181
Investments in associates and non-consolidated subsidiaries	-	-	-	-	266 883	266 883
Premises and equipment, and intangible assets	-	-	-	-	7 800 053	7 800 053
Other assets	2 064 382	14 371	615	132 371	15 527	2 227 266
Tax assets	-	-	-	-	17 966	17 966
Total assets	**167 768 317**	**76 068 084**	**82 803 893**	**183 754 160**	**17 691 744**	**528 086 198**
Liabilities						
Due to other banks	1 582 000	7 570 745	15 718 245	44 753 731	-	69 624 721
Customer accounts	111 308 865	80 111 100	53 162 029	106 064 229	-	350 646 223
Financial liabilities at fair value through profit or loss	154 010	-	-	-	-	154 010
Debt securities issued	2 968 469	1 465 905	3 437 934	48 083 983	-	55 956 291
Other liabilities	1 014 632	432 926	28 661	137 576	386	1 614 181
Tax liabilities	-	-	-	-	1 495 769	1 495 769
Total liabilities	**117 027 976**	**89 580 676**	**72 346 869**	**199 039 519**	**1 496 155**	**479 491 195**
Net liquidity gap as at 31 December 2007	**50 740 341**	**(13 512 592)**	**10 457 024**	**(15 285 359)**	**16 195 589**	**48 595 003**
Cumulative liquidity gap as at 31 December 2007	**50 740 341**	**37 227 749**	**47 684 773**	**32 399 414**	**48 595 003**	**-**

Mandatory cash balances with central banks are included within No stated maturity as the Group is unable to use them for operational management of its liquidity position.

As the above analysis is based on expected maturity, the entire portfolio of financial assets at fair value through profit or loss is categorised as On demand and less than 1 month in accordance with the portfolio liquidity assessment by the management.

(in thousands of Russian Roubles)

The table below shows the assets and liabilities as at 31 December 2006 by their expected maturity:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	43 652 648	-	-	-	-	43 652 648
Mandatory cash balances with central banks		-	-	-	6 299 853	6 299 853
Financial assets at fair value through profit or loss	37 161 141	-	-	-	-	37 161 141
Due from other banks	24 146 154	948 414	4 145 333	28 510	-	29 268 411
Loans to customers	24 875 481	66 747 780	74 411 260	90 007 553	-	256 042 074
Financial assets available for sale	6 332	24 632	69 842	13 857	308 464	423 127
Investments in associates and non-consolidated subsidiaries	-	-	-	-	740 826	740 826
Goodwill	-	-	-	-	583 385	583 385
Premises and equipment, and intangible assets	-	-	-	-	6 579 363	6 579 363
Other assets	1 050 153	16 350	298	102 662	-	1 169 463
Tax assets	-	-	-	-	37 474	37 474
Total assets	**130 891 909**	**67 737 176**	**78 626 733**	**90 152 582**	**14 549 365**	**381 957 765**
Liabilities						
Due to other banks	2 215 084	8 142 928	244 542	27 254 565	-	37 857 119
Customer accounts	115 921 112	36 555 435	96 798 626	10 225 945	-	259 501 118
Debt securities issued	3 661 632	5 550 466	401 231	40 889 203	-	50 502 532
Other liabilities	930 407	151 953	8 305	208 015	-	1 298 680
Tax liabilities	-	-	-	-	828 963	828 963
Total liabilities	**122 728 235**	**50 400 782**	**97 452 704**	**78 577 728**	**828 963**	**349 988 412**
Net liquidity gap as at 31 December 2006	**8 163 674**	**17 336 394**	**(18 825 971)**	**11 574 854**	**13 720 402**	**31 969 353**
Cumulative liquidity gap as at 31 December 2006	**8 163 674**	**25 500 068**	**6 674 097**	**18 248 951**	**31 969 353**	**-**

In the opinion of the Group's management, the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental for successful management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

Operational risk. The Group implemented fundamental measures for operational risk management, which imply regulation of performed transactions and business processes and availability of internal control system. These measures are supported by the respective risk assessment methodology based on world experience. The methodology of operational risk assessment was developed and approved. For information support of risk assessment the Bank has introduced special software and maintains database of losses resulted from realisation of operational risks. T he following management methods and instruments are applied to operational risks:

Standardisation and development of technologies. Clear and unambiguous description of performed transactions technology and decision-making procedure within the internal regulatory framework and its timely actualisation is one of the main factors for decreasing the level of operational risk and it also forms the basis for timely detection and effective control of risks. Operational risks are also mitigated by implementing the information technologies allowing to decrease the level of manual transactions.

Limitation of authority. The Group implemented a multilevel system of limits on authorities of responsible persons and collective bodies, identified responsibility and interchangeability of employees in all segments of work.

Operational risk assessment. In accordance with the existing methodology of assessing the Bank's operational risks the quantitative analysis of operational risk implies modelling of the Bank's losses based on historical data.

The quantitative assessment of operational risk is aimed at ranking of the Bank activity lines depending on the level of the operational risk based on the data of experts from the Bank divisions. In addition, the Bank divisions use self-assessment techniques to assess operational risks.

Control. There is a system of procedures aimed at prevention or detection of departures from laws, regulations and standards of professional activities, settlement of conflict of interests, provision of adequate level of reliability relevant to the nature and scope of transactions performed.

Risk insurance. Certain types of loss arising from realisation of operational risks are covered by insurance, thus transferring possible loss to insurance organisations.

Provisions by main types of risk are made to form sources to cover possible losses. Provision rates and procedures are defined on the basis of the approved regulations.

Based on the results of regular risk analysis the Group prepares management reports for its management. These reports not only provide assessment of risk level but also offer arrangements to limit and diversify risks.

Capital Management

The Group's capital management has the following objectives: to observe the capital requirements established by the Central Bank of the Russian Federation; to ensure the Group's ability to operate as a going concern and maintain capital base at the level required to sustain capital adequacy ratio at 8% recommended by the Basle Accord.

The control over the Bank's compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is exercised daily based on the calculation of the amount of its equity and risk weighted assets. The calculation of the Bank's mandatory economic norms and ratios is submitted to the Central Bank of the Russian Federation every month.

The Group's compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is controlled on the basis of quarterly reports that are verified and signed by the Group's management.

In accordance with the current capital requirements set by the CBR, the banks should maintain the ratio of capital to risk weighted assets (capital adequacy ratio) above the prescribed minimum level which equals 10%. As at 31 December 2007, the Group's capital adequacy ratio was 14.1 % (2006: 13.1%).

The Group and the Bank are also obliged to comply with minimum capital requirements stipulated in loan agreements, including capital adequacy ratio, calculated on the basis of the Basle Capital Accord, as defined in "International Convergence of Capital Management and Capital Standards" (revised in April 1998) usually called Basle I and in the Supplement to the Basle Capital Accord which introduced consideration of market risks (revised in November 2005).

(in thousands of Russian Roubles)

During 2006 and 2007 the Group and the Bank complied with all external capital requirements.

The structure of the Group's capital calculated in accordance with the Basle Capital Accord is given below:

	2007	2006
Core capital (Tier 1 capital)	46 959 917	31 263 598
Secondary capital (Tier 2 capital)	19 795 840	9 657 047
Total equity (capital)	**66 755 757**	**40 920 645**
Risk-weighted assets	**450 813 917**	**306 918 800**
Capital adequacy ratio	**14.8%**	**13.3%**
Core capital adequacy ratio	**10.4%**	**10.2%**
Minimum capital adequacy ratio	8.0%	8.0%

31. Contingent Liabilities

Insurance. The insurance market in the Russian Federation is still in the phase of development, so many forms of insurance protection applied in other countries are not available in the Russian Federation yet. The Group has not obtained full insurance coverage for premises and equipment, against discontinuance of operations or third party liability with respect to property or ecological damage arsing due to malfunction of banking equipment or in connection with the main operations of the Group.

However, the Group has obtained insurance coverage for the most significant property items: premises, motor vehicles, ATM and other items against damage due to accidents and unlawful actions of third parties.

Legal issues. In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Taxation legislation. The tax system of the Russian Federation is characterised by a large number of taxes and frequently changed regulations that may have the retroactive effect and often contain ambiguous and contradictory statements. Often, differing opinions exist among various regulatory bodies in respect of the same regulation. Accuracy of tax computations is subject to review and investigation by a number of fiscal authorities, who are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in the Russian Federation, which are substantially more significant than typically found in other countries.

As at 31 December 2007, the management believes that its interpretation of the respective legislation is appropriate, and the Group's tax, currency and customs positions will be sustained.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2007	2006
Less than 1 year	485 865	173 019
From 1 to 5 years	182 249	-
Total operating lease commitments	**668 114**	**173 019**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to the third parties, carry the same credit risk as loans. Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to make loans at a specific rate of interest during a fixed period of time are accounted for as derivative financial instruments unless these commitments do not extend beyond the period expected to be needed to perform appropriate underwriting.

(in thousands of Russian Roubles)

Credit related commitments of the Group are as follows:

	2007	2006
Guarantees issued	36 187 683	14 007 443
Commitments to extend credit	32 534 793	15 082 005
Letters of credit	8 918 743	5 328 946
Total credit related commitments	**77 641 219**	**34 418 394**

Commitments to extend credit represent unused portions of authorisations to extend credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The total outstanding contractual amount of guarantees, letters of credit and undrawn credit lines does not necessarily represent future cash requirements as these financial instruments may expire or terminate without being funded.

The Group management estimates possibility of losses in connection with credit related commitments as immaterial. As at 31 December 2007 and 31 December 2006, the Group did not set up provisions for the related losses.

Deals with financial instruments maturing after the balance sheet date. The table below presents the analysis of contractual or agreed amounts and fair value of financial instruments. It reflects gross position before the netting of any counterparty position by type of instrument with a maturity date subsequent to 31 December 2007:

	Domestic contracts		**Foreign contracts**	
	Contract amount	**Unrealised profit / (loss)**	**Contract amount**	**Unrealised profit / (loss)**
Forward transactions				
Foreign currency				
- sale of foreign currency	249 900	4 438	1 263 500	36 190
- purchase of foreign currency	5 873 725	17 363	3 240 223	(42 910)
Securities				
- sale of securities	632 046	14 565	1 559 404	15 985
- purchase of securities	1 566 264	(22 845)	-	-
Spot transactions				
Foreign currency				
- sale of foreign currency	802 425	(902)	640 543	249
- purchase of foreign currency	368 040	153	9 301 000	41 631
Precious metals				
- sale of precious metals	48 784	(77)	-	-
Swap transactions				
Currency and interest rate swaps	-	-	3 065 670	(108 014)
Total	**9 541 184**	**12 695**	**19 070 340**	**(56 869)**

32. Fair Value of Financial Instruments

The fair value is defined as the amount at which the instrument could be exchanged in a current transaction between independent knowledgeable willing parties on arm's length conditions, other than in forced or liquidation sale. As no readily available market exists for major part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holdings of a particular instrument.

(in thousands of Russian Roubles)

Below is the estimated fair value of the Group's financial instruments as at 31 December 2007 and 2006:

	2007		2006	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Cash and cash equivalents	63 920 118	63 920 118	43 652 648	43 652 648
Financial assets at fair value through profit or loss	51 312 593	51 312 593	37 161 141	37 161 141
Due from other banks	40 853 080	40 853 080	29 268 411	29 268 411
Loans to customers	351 622 231	351 622 231	256 042 074	256 042 074
Financial assets available for sale	3 771 181	3 771 181	423 127	423 127
Financial liabilities				
Due to other banks	69 624 721	69 624 721	37 857 119	37 857 119
Customer accounts	350 646 223	350 646 223	259 501 118	259 501 118
Financial liabilities at fair value through profit or loss	154 010	154 010	-	-
Debt securities issued	55 956 291	55 454 797	50 502 532	52 323 613

Financial instruments carried at fair value. Cash and cash equivalents, financial assets at fair value through profit or loss and financial assets available for sale are carried in the consolidated balance sheet at their fair value (Notes 5, 6, 9). Some financial assets available for sale have no independent market quotations. The fair value of these assets was determined by the Group based on the results of recent sale of equity interests in the investees to unrelated third parties, analysis of other information, such as discounted cash flows and financial information about investees, as well as using other valuation methods.

Due from other banks. The fair value of floating rate instruments is their carrying amount. The estimated fair value of fixed interest-bearing placements is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and maturity. In the opinion of the Group, the fair values of due from other banks as at 31 December 2007 and 31 December 2006 do not materially differ from respective carrying amounts (Note 7). This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Loans to customers. Loans to customers are reported net of impairment provisions. The estimated fair value of loans to customers represent the discounted amount of estimated future cash flows expected to be received. To determine fair value, expected cash flows are discounted at current market rates. The Group believes that fair values of loans to customers as at 31 December 2007 and 31 December 2006 do not materially differ from respective carrying amounts (Note 8). This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Borrowings. The estimated fair value of borrowings with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The management believes that fair values of borrowings as at 31 December 2007 and 31 December 2006 do not materially differ from respective carrying amounts (Note 13, 14). This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Debt securities issued. The fair value of debt securities issued is based on market quotations. The fair value of instruments without quoted market prices is determined using the discounted cash flows model, which is based on the current yield curve for the remaining maturity (Note 16).

33. Reconciliation of Categories of Financial Instruments to Balance Sheet

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" the Group classifies its financial assets in the following categories: 1) financial assets at fair value through profit or loss; 2) loans and receivables; 3) financial assets available for sale.

(in thousands of Russian Roubles)

The table below shows reconciliation of categories of financial assets to the balance sheet as at 31 December 2007:

	Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Total
Assets				
Cash and cash equivalents	63 920 118	-	-	63 920 118
Financial assets at fair value through profit or loss		-	-	
-Corporate bonds	25 343 148	-	-	25 343 148
- Eurobonds of the Russian Federation	5 626 009	-	-	5 626 009
- Equity securities	5 112 060	-	-	5 112 060
- Russian Federation bonds (OFZ)	4 489 052	-	-	4 489 052
- Bonds of RF subjects and local authorities	3 677 534	-	-	3 677 534
- Corporate eurobonds	1 990 669	-	-	1 990 669
- Promissory notes	1 979 881	-	-	1 979 881
- Federal currency bonds (OVGVZ)	1 649 830	-	-	1 649 830
-Bonds of foreign states	1 334 574	-	-	1 334 574
-Derivative financial instruments	109 836	-	-	109 836
Due from other banks				
- Loans and deposits with other banks	-	33 957 052	-	33 957 052
- Reverse repo agreements with other banks	-	6 896 028	-	6 896 028
Loans to customers			-	
-Corporate loans	-	217 445 561	-	217 445 561
- Loans to small and medium business	-	41 578 458	-	41 578 458
-Loans to state and municipal authorities	-	5 522 681	-	5 522 681
- Consumer loans	-	34 787 481	-	34 787 481
- Mortgage loans	-	17 300 545	-	17 300 545
-Car loans	-	13 448 568	-	13 448 568
-Scoring loans	-	3 541 016	-	3 541 016
-Credit cards	-	3 349 539	-	3 349 539
-Overdrafts	-	48 678	-	48 678
- Reverse repo agreements	-	14 599 704	-	14 599 704
Financial assets available for sale				
-Equity securities	-	-	3 229 392	3 229 392
-Corporate debt obligations	-	-	448 163	448 163
-Corporate eurobonds	-	-	93 626	93 626
Other financial assets				
-Accounts receivable	-	1 135 627	-	1 135 627
- Plastic cards receivables	-	112 376	-	112 376
Total financial assets	**115 232 711**	**393 723 314**	**3 771 181**	**512 727 206**
Non-financial assets				15 358 992
Total assets				**528 086 198**

(in thousands of Russian Roubles)

The table below shows reconciliation of categories of financial assets to the balance sheet as at 31 December 2006:

	Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Total
Assets				
Cash and cash equivalents	43 652 648	-	-	43 652 648
Financial assets at fair value through profit or loss				
- Corporate bonds	13 315 495	-	-	13 315 495
- Russian Federation bonds (OFZ)	11 258 120	-	-	11 258 120
- Equity securities	4 808 711	-	-	4 808 711
- Federal currency bonds (OVGVZ)	2 275 699	-	-	2 275 699
- Bonds of RF subjects and local authorities	1 966 544	-	-	1 966 544
- Bonds of foreign states	1 209 404	-	-	1 209 404
- Eurobonds of the Russian Federation	1 024 243	-	-	1 024 243
- Corporate eurobonds	784 966	-	-	784 966
- Promissory notes	505 383	-	-	505 383
- Derivative financial instruments	12 566	-	-	12 566
- Bonds of the Bank of Russia	10	-	-	10
Due from other banks				
- Loans and deposits with other banks	-	23 419 887	-	23 419 887
- Reverse repo agreements with other banks	-	5 848 524	-	5 848 524
Loans to customers				
- Corporate loans	-	178 669 991	-	178 669 991
- Loans to small and medium business	-	23 819 158	-	23 819 158
- Loans to state and municipal authorities	-	5 400 775	-	5 400 775
- Consumer loans	-	10 661 686	-	10 661 686
- Mortgage loans	-	7 273 671	-	7 273 671
- Car loans	-	9 771 781	-	9 771 781
- Scoring loans	-	5 420 993	-	5 420 993
- Credit cards	-	1 992 184	-	1 992 184
- Overdrafts	-	65 370	-	65 370
- Reverse repo agreements	-	12 966 465	-	12 966 465
Financial assets available for sale				
- Equity securities	-	-	308 464	308 464
- Corporate debt obligations	-	-	100 806	100 806
- Corporate eurobonds	-	-	13 857	13 857
Other financial assets				
- Accounts receivable	-	696 386	-	696 386
- Plastic cards receivables	-	119 951	-	119 951
Total financial assets	**80 813 789**	**286 126 822**	**423 127**	**367 363 738**
Non-financial assets				14 594 027
Total assets				**381 957 765**

All financial liabilities of the Group, except the derivative financial instruments, are carried at amortised cost. Derivative financial instruments are classified as at fair value through profit or loss.

34. Related Party Transactions

In the normal course of business the Company enters into transactions with its main shareholders, directors and other related parties. For the purposes of these financial statements, parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. These transactions include settlements, issuance of loans, deposit taking, guarantees, trade finance and foreign currency transactions. According to the Group's policy, the terms of related party transactions are equivalent to those that prevail in arm's length transactions.

(in thousands of Russian Roubles)

The outstanding balances at the year end, asset-related transactions with related parties for 2007 and 2006 are as follows:

	Shareholders		Directors and key management personnel		Associates	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Financial assets at fair value through profit or loss						
Financial assets at fair value through profit or loss as at 1 January	284 186	107 910	-	-	2 445 604	1 415 792
Financial assets at fair value through profit or loss acquired during the year	4 820 452	5 941 578	-	-	5 981 712	1 248 426
Financial assets at fair value through profit or loss sold and repaid during the year	(4 292 433)	(5 765 302)	-	-	(4 321 497)	(218 614)
Financial assets at fair value through profit or loss as at 31 December	**812 205**	**284 186**	-	-	**4 105 819**	**2 445 604**
Due from other banks						
Due from other banks as at 1 January	-	-	-	-	545 000	554 391
Due from other banks placed during the year	-	-	-	-	1 946 838	2 632 815
Due from other banks repaid during the year	-	-	-	-	(1 858 121)	(2 642 206)
Due from other banks as at 31 December	**-**	**-**	**-**	**-**	**633 717**	**545 000**
Provisions for impairment of due from other banks						
Provision for impairment of due from other banks as at 1 January	-	-	-	-	5 000	5 000
Provision for impairment of due from other banks as at 31 December	**-**	**-**	**-**	**-**	**5 000**	**5 000**
Due from other banks as at 1 January (less provision for impairment)	**-**	**-**	**-**	**-**	**540 000**	**549 391**
Due from other banks as at 31 December (less provision for impairment)	**-**	**-**	**-**	**-**	**628 717**	**540 000**
Loans to customers						
Loans to customers as at 1 January (gross)	-	131 134	245 286	206 312	5 969 929	4 080 254
Loans to customers issued during the year	-	-	529 368	178 441	4 196 015	8 765 586
Loans to customers repaid during the year	-	(131 134)	(333 884)	(139 467)	(6 027 602)	(6 875 911)
Loans to customers as at 31 December (gross)	**-**	**-**	**440 770**	**245 286**	**4 138 342**	**5 969 929**
Provisions for loan impairment						
Provision for loan impairment as at 1 January	-	-	-	-	258 122	80 979
Provision /(Recovery of provision) for loan impairment	-	-	4 408	-	(173 005)	177 143
Provision for loan impairment as at 31 December	**-**	**-**	**4 408**	**-**	**85 117**	**258 122**
Loans to customers as at 1 January (less provision for impairment)	**-**	**131 134**	**245 286**	**206 312**	**5 711 807**	**3 999 275**
Loans to customers as at 31 December (less provision for impairment)	**-**	**-**	**436 362**	**245 286**	**4 053 225**	**5 711 807**

(in thousands of Russian Roubles)

	Shareholders		Directors and key management personnel		Associates	
	2007	2006	2007	2006	2007	2006
Interest received on loans to customers and due from other banks	**-**	**3 352**	**29 511**	**11 888**	**723 834**	**293 032**

The outstanding balances at the year end, liability-related transactions with related parties for 2007 and 2006 are as follows:

	Shareholders		Directors and key management personnel		Associates	
	2007	2006	2007	2006	2007	2006
Due to other banks						
Due to other banks as at 1 January	-	-	-	-	13 510	15 068
Due to other banks received during the year	-	-	-	-	5 405 614	7 859 601
Due to other banks repaid during the year	-	-	-	-	(5 395 365)	(7 861 159)
Due to other banks as at 31 December	**-**	**-**	**-**	**-**	**23 759**	**13 510**
Customer accounts						
Customer accounts as at 1 January	75 607 686	44 868 851	416 637	327 694	13 115 755	8 595 702
Customer accounts received during the year	308 960 963	368 039 835	2 307 818	1 454 591	384 041 368	299 422 555
Customer accounts repaid during the year	(292 699 173)	(337 301 000)	(2 282 277)	(1 365 648)	(376 311 306)	(294 902 502)
Customer accounts as at 31 December	**91 869 476**	**75 607 686**	**442 178**	**416 637**	**20 845 817**	**13 115 755**
Interest expense on deposits	**4 433 351**	**3 507 506**	**42 096**	**35 226**	**38 935**	**34 692**
Fee and commission income for the year	**4 693**	**-**	**-**	**-**	**446 229**	**398 175**
Guarantees issued by the Group at the end of the year	**1 607 776**	**-**	**-**	**-**	**-**	**1 392 235**
Guarantees received by the Group at the end of the year	**-**	**-**	**-**	**-**	**-**	**-**
Import letters of credit at the end of the year	**58 022**	**-**	**-**	**-**	**-**	**222 688**

Operations with the Moscow Government structures account for a substantial share of related party transactions.

Remuneration to members of the Board for 2007 amounted to RUR 701 606 thousand (2006: RUR 537 162 thousand).

35. Events after the Balance Sheet Date

On 8 February 2008 the Group placed on the MICEX its RUR 10 billion bonded loan at the nominal value of 1 000 roubles. The code and date of the state registration of the issue are: 40202748B of 10 December 2007. The date of the nearest offer is 6 February 2009. The coupon period is 182 days. The coupon rate for the first two periods is 7.85% per annum.

The Group acquired 50% in the share capital of Commercial Joint Stock Bank Bezhitsa-Bank (OJSC) through payment of the additional issue of shares. Report on issue results was registered by the Main Department of the Central Bank of Russia for Bryansk region on 14 February 2008.

On 3 March 2008 the Group obtained an approval of the National Bank of Serbia (NBS) to set up a subsidiary structure in Serbia - Moskovska banka a.d. - Belgrade (MBB) with authorised capital of EUR 15 million (the equivalent in the national currency).

On 4 March 2008 the Bank of Moscow placed Eurobonds in the amount of CHF 250 000 thousand maturing on 4 March 2011 with annual payment of interest at the rate of 6.253% per annum.

On 6 March 2008 Mr. A.F. Borodin, President of the Bank, and Mr. L.F. Alaluev, Deputy Chairman of the Board of Directors, declared an increase of its participating interest 17.62%.